The Economist

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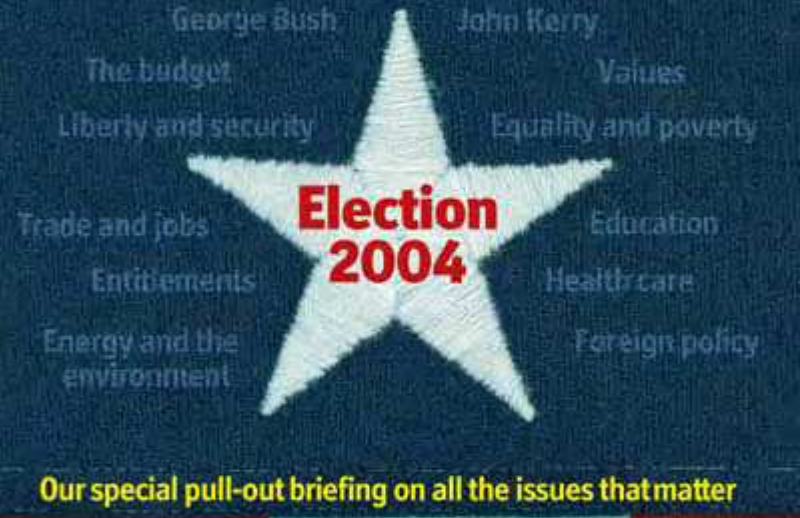

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Politics this week

Oct 7th 2004
From The Economist print edition

A success, at last

AP

The interim **Iraqi** government of Iyad Allawi made much of its success in recapturing the town of Samarra, north of Baghdad. Meanwhile a mixed force of Americans and Iraqis began a sweep through disaffected towns just south of the capital.

See article

A 1,000-page report commissioned by the American government and written by **Charles Duelfer** said it had found no evidence of stockpiles of weapons of mass destruction in Iraq but added there was considerable evidence that Saddam Hussein had intended to resume production as soon as sanctions fell away.

See article

A former president of **Iran**, Ali Akbar Hashemi Rafsanjani, declared that his country now had the ability to launch missiles with a range of 2,000km (1,250 miles)—in reach of, among other places, Israel.

See article

Kofi Annan, the UN secretary-general, said that **Sudan** had made no progress towards curbing the Arab militias carrying out ethnic cleansing in Darfur, despite a Security Council resolution ordering it to do so. But no sanctions were imposed on the Sudanese government, as had been threatened. Tony Blair, Britain's prime minister, visited Khartoum to remonstrate with the government there.

See article

FannyAnn Eddy, who founded the **Sierra Leone** Lesbian and Gay Association and campaigned across Africa for homosexual rights, was found murdered in her office in Freetown, Sierra Leone's capital.

See article

Israel pursued a military operation in northern Gaza designed to curb the ability of Palestinians to fire their home-made Kassam rockets over the border. By midweek some 80 Palestinians had been killed, including an estimated 26 civilians. The United States vetoed what it described as a lopsided UN Security Council resolution that would have called on Israel to stop its incursion without referring to the rockets.

See article

Talking Turkey

As expected, the European Commission recommended the opening of negotiations on **Turkey's accession** to the European Union. The decision must be approved by EU leaders in December.

See article

The new president of **Chechnya** was inaugurated. Alu Alkhanov, Moscow's favoured candidate, praised

the republic's Russian motherland.

Georgia's separatist **Abkhazia** region is to hold new elections, after a controversial vote on October 3rd saw the main pro-Moscow candidate come second. Voters are expected to get it right next time round.

The French police arrested the political leader of **ETA**, the Spanish Basque terrorist group, along with his girlfriend and 15 other alleged ETA terrorists. Both Spain and France hailed the arrests as decapitating ETA, though the group has bounced back from similar claims in the past.

See article

Slovenia's parliamentary election returned the centre-right to power for the first time since 1991. Just before the election, the left-leaning prime minister, Anton Rop, had picked a fight with Croatia, but it did not yield him enough votes to win.

Election fever

Afghanistan prepared for its first ever presidential election, due on October 9th. A bomb unsuccessfully targeted the running-mate of Hamid Karzai, the incumbent hopeful. On the penultimate day of campaigning, Mr Karzai attended his one and only rally outside the capital, Kabul.

See article

Australians prepared to vote in a general election on October 9th, pitting the conservative coalition led by John Howard against an opposition Labor Party rejuvenated under the leadership of Mark Latham.

Susilo Bambang Yudhoyono was formally declared the victor in **Indonesia's** presidential election, held in September.

See article

America agreed to phase the withdrawal of a third of its troops from **South Korea** over three years, after the government there gave warning that a sudden departure could leave the South vulnerable to an attack from the North.

A bomb killed at least 38 people in a Sunni mosque in the **Pakistani** city of Multan. It appeared to have been in revenge for an earlier attack on a Shia mosque.

King Sihanouk of **Cambodia** is abdicating, his son said.

Debating points

EPA

George Bush and John Kerry conducted the first of three **presidential debates**, and by most reckonings the Democratic challenger won. Dick Cheney and John Edwards fought out the only vice-presidential debate, with neither clearly emerging on top.

See article

Paul Bremer, America's administrator in **Iraq** until the handover of power last June, admitted that with hindsight too few troops had been deployed in the initial invasion of the country, hampering efforts to contain looting and violence that followed the fall of Saddam Hussein. Mr Kerry seized on the remarks, accusing Mr Bush of a failure to admit his mistakes.

While campaigning in Iowa, Mr Bush also found time to sign a bill extending some provisions of his earlier **tax cuts** that were due to expire at the end of this year. Among them are extensions of a 10% tax bracket and child tax credits.

Supporters of a constitutional amendment that bans **same-sex marriage** failed to get the two-thirds majority needed to pass the House of Representatives (the Senate rejected the same amendment last July). Around a dozen states will hold their own ballots on the issue in next month's general election.

Soldiers in retreat

Chile's senate put one more nail in the coffin of the country's history of military rule with a bill that abolishes the posts of nine non-elected senators, among them four ex-generals, and reduces the power of the national security council. The reform should pass easily in the lower house.

Haitian police and UN peacekeepers raided a stronghold of gangs loyal to the deposed former president, Jean-Bertrand Aristide, which have murdered dozens of people in recent days, beheading some of them. The UN promised to increase the size of its peacekeeping force.

Supporters of **Mexico City's** mayor, Andrés Manuel López Obrador, stormed the lower house of the Mexican congress in protest at plans to cut the capital's education budget. They say it is the latest attempt to undermine the mayor's presidential ambitions.

More daringly, six **Cuban** women staged an overnight sit-in on Havana's Revolution Square, the symbolic heart of Fidel Castro's regime, to protest at the jailing of their dissident husbands.

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Business this week

Oct 7th 2004
From The Economist print edition

Airline disputes

America took its dispute with the European Union over government **subsidies to Airbus** to the WTO. The case filed against Airbus argues that loans from European governments constitute illegal state aid. The EU promised in retaliation a case against Boeing, which Airbus recently overhauled in terms of sales, alleging “massive” subsidies for its new 7E7 Jetliner.

See article

US Airways, which filed for Chapter 11 bankruptcy protection in September, announced plans to reduce managerial staff by some 10% from a total of 3,700 and for pay cuts of $45m a year. The airline hopes its unionised workers will take the hint and agree to yearly cost savings of nearly $1 billion. The airline has threatened that a bankruptcy judge will impose pay cuts unless a deal is struck.

Alitalia finally reached an agreement with unions over lay-off packages for 3,700 employees, over 15% of the workforce. The deal will unlock a government loan of *euro*400m ($492m) that will keep the Italian carrier in the air while it tries to restructure its struggling business. Italy's government will bear much of the cost of the generous scheme for ex-workers.

No man of the PeopleSoft

PeopleSoft fired its CEO, Craig Conway, opponent-in-chief of Oracle's $7.7 billion hostile takeover bid. His replacement is David Duffield, the firm's popular founder and chairman, who is also one of its biggest shareholders. He too wants PeopleSoft to remain independent.

See article

Howard Stern, America's top shock-jock, said that he would quit his present job and make the jump to Sirius Satellite Radio for a princely $500m over five years. Mr Stern, frequently the subject of regulatory ire for the risqué content of his shows, will be able to offend listeners without the barely apparent constraints imposed by the watchdogs of taste and decency.

Football crazy?

Manchester United, the world's richest football club, revealed that a mystery buyer was preparing a takeover bid that could top £700m ($1.2 billion). Speculation centred on Malcolm Glazer, an American tycoon who owns a 19% stake, but has yet to see the team play. Fans complained loudly, fearing his motives.

See article

Shares in **Volkswagen** rose after the troubled carmaker said it had hired Wolfgang Bernhard. Mr Bernhard famously restructured an ailing business at DaimlerChrysler.

Administrators at **Parmalat** secured a *euro*160m ($197m) settlement from a subsidiary of Italy's Banca Intesa for a disputed bond sale. On October 7th they launched a lawsuit against Bank of America, alleging that it was among several banks that knowingly defrauded the dairy-products firm. Parmalat wants $10 billion of damages.

Credit where it is due

As if American consumers needed greater access to credit-card debt, the Supreme Court upheld a ruling that **Visa** and **MasterCard** violated antitrust rules by banning banks that issue their cards from also offering rival cards. American Express, in partnership with MBNA, immediately announced plans to launch competing cards.

Partners and owners of **Lazard** bickered over the investment bank's mooted flotation on the stockmarket which, despite repeated clashes, seems imminent.

See article

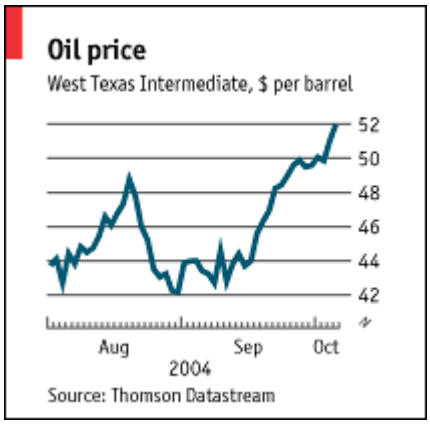
Japan's Financial Services Agency said that it had filed a criminal complaint against **UFJ**, the country's fourth-largest bank. UFJ is suspected of obstructing an inspection of its books. UFJ still plans to be taken over by another of the country's big banks, Mitsubishi Tokyo Financial Group.

George Soros, a billionaire investor-cum-philanthropist, revealed that he was handing greater control of his business to his sons and spinning off firms peripheral to his vast hedge fund, such as property and credit-card operations. This may allow him more time to devote to what he considers his greatest act of public-spiritedness; a campaign to oust George Bush.

Tax attacks

The Russian government claimed that **Yukos** had paid some 75% of its $3.4 billion tax debt for 2000. But the beleaguered oil giant's main production subsidiary, Yuganskneftegaz, was handed a bill for nearly $1 billion for taxes in 2002, increasing the likelihood that the government will seize the unit to settle Yukos's debts.

The price of **oil** topped $52 a barrel after supplies from the Gulf of Mexico failed to recover in the aftermath of Hurricane Ivan. Production in the area is still down by around a third. Meanwhile, rebels threatening to disrupt oil exports from Nigeria agreed to a peace deal but oil workers in the country threatened strikes.



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Afghanistan

Democracy's chance in Afghanistan

Oct 7th 2004
From The Economist print edition

This weekend, Afghans will vote to choose their leader. That is wonderful, but many problems remain

Reuters

IT IS easy to be depressed by Afghanistan. This year's opium crop will be the biggest in its history, accounting for up to two-thirds of national income. The hundreds of millions of dollars involved have corrupted government to the highest levels. Security is so precarious that, on one of the only two occasions when he tried to hold a rally outside Kabul, Hamid Karzai, the interim president, found his helicopter repelled by ground fire. Much of the country is too dangerous for foreign aid workers to visit, so the task of rebuilding a nation ravaged by 25 years of war is proceeding at a pitiful pace (see article).

Kabul has mobile phones, enticing restaurants, unveiled girls going to school, a relative absence of physical danger and signs of economic growth. But in the south things are still falling apart. The drug barons are so powerful that government has largely broken down. Outside a few lucky and mostly urban areas, schools are not re-opening there, water-pumps are not being installed, and roads are not being surfaced. This is the heartland of the Pushtun majority, and it cannot but be dangerous if the Pushtuns feel they are being left behind. The effort against drugs has been spectacularly mismanaged by the West—not least by Britain, which has taken the lead in a task it is not able to perform.

Coming home, and queuing to vote

All the same, two prominent facts suggest that, overall, Afghanistan has indeed improved since America went to war there in October 2001, and is still continuing to do so. The first is that Afghans are voting with their feet. Since the fall of the Taliban, more than 3m refugees have returned from neighbouring Iran and Pakistan—something they dared not do while the Soviet Union battled the *mujahideen*, or while rival warlords, having defeated the Russians, were rocketing Kabul, or while the Taliban, who drove out the warlords, were playing out their medieval religious fantasies while turning their country into a training-camp for al-Qaeda. There has been no move in the opposite direction, even as the euphoria that surrounded the Taliban's fall has faded.

The second cause for optimism is the sheer enthusiasm with which Afghans have embraced the democratic process. Six months ago, many people feared it would prove impossible to hold an election in so benighted a country. Back then, fewer than one in four eligible Afghans had registered to vote. By election day, however, the number of registered voters was around 10.5m—embarrassingly close to

100% of the rough estimate of those eligible, suggesting a degree of fraud as well as a powerful desire to participate. Afghans have no experience of choosing their leader, and their choice is in no real doubt: it seems all but certain that the incumbent Mr Karzai will win the mandate he wants, though perhaps not until a run-off poll in November. Even so, they think it worth queuing to register and vote. That, surely, is an expression of faith in the future. Those hopes could easily be dashed: by large-scale violence on polling-day, or if one of the many attempts on Mr Karzai's life proves successful—or, more likely, if international donors use the elections as an excuse, once they are over, to walk away. But none of this is inevitable.

Three years on, what are the lessons for post-war state-building? The first is the paramountcy of security. Without that, the victor in war can lose the peace. You cannot distribute aid, you cannot control narcotics, you cannot rebuild infrastructure and you cannot create a viable government.

The West botched post-war security in Afghanistan. America and its coalition allies have mostly confined themselves only to one part of the problem, tackling the remnants of al-Qaeda and the Taliban in the south-east. In this, they have achieved some success, hemming al-Qaeda into mountainous redoubts along the Afghanistan-Pakistan border, from which it and its still unapprehended leader, Osama bin Laden, pose a greatly diminished threat to the world. The Taliban are more amorphous, but are, at least, also confined to the south-east. They can no longer hope to retake control of the country. But they are still able to conduct devastating, if localised, raids.

However, the rest of Afghanistan was largely left to America's European allies. They have not done well. Until the start of this year, the “International Security Assistance Force” operated only in Kabul. When NATO took over the running of ISAF, in August 2003, it spent months haggling over troop numbers, helicopters and rules of engagement. It did eventually expand outside Kabul, bolstering security in the few areas where it operates in a limited way. But much more of this should have been done, and sooner. Some say that a larger force might have been construed as a foreign invader. And as the British discovered in the 19th century and the Russians in the 20th, Afghans unite against foreign domination. But the friendly reception they have given the ISAF in its limited excursions suggests that even illiterate tribesmen can tell the difference between occupiers and peacekeepers.

The lessons for Iraq

Iraq and Afghanistan are very different countries, not least in that Afghanistan seems genuinely to be one country, whereas Iraq may turn out not to be. So was the nature of the war America waged in them. In Afghanistan, America fought a largely proxy war using the militias of the Northern Alliance, which gave it the mixed blessing of having well-armed local allies who expected to run the country afterwards. In Iraq (with the exception of Kurdistan) America and its foreign allies waged the war alone, and inherited no useful local forces capable of imposing order once the invasion was over. Nonetheless, two other lessons—on top of the need for security—can be read across from one conflict to the other.

One is the need for patience. The job of putting a failed state back together again is bound to be incremental, patchy and plagued by frequent reverses. A year ago, when Mr Karzai's authority did not extend outside his capital, it was easy to assume that Afghanistan would always remain a collection of fiefs. This may now be changing. In Herat, Mr Karzai has been brave enough to dismiss the warlord Ismail Khan as governor—though Mr Khan and his private army are still very much at large. In the north-west, the fledgling Afghan National Army has dared to back Mr Karzai's man against another brutal warlord, General Rashid Dostum. Mr Karzai has dumped another of the warlords, Mohammed Fahim, as his running-mate. Huge problems remain, but it is no longer impossible to imagine a future in which Afghanistan becomes a unified and reasonably well-governed country.

The final lesson for Iraq is that legitimacy matters. In Afghanistan, care has been taken to create a government that Afghans may, with luck, consider their own. A UN-sponsored conference drew up the basic plan within weeks of the end of hostilities. A transitional government was then elected, on time, by an Afghan Grand Assembly. A constitution was drawn up, also on time. Now presidential elections are being held, with only a minor delay. Parliamentary elections next year are supposed to provide the final piece of the puzzle.

In Iraq, America's blueprint for a democratic transition has been chopped and changed with bewildering frequency. And now that a clear plan has at last been drawn up, leading to an election in January, security has deteriorated so much that holding it may prove impossible. Much more should have been—and still needs to be—learned, from Afghanistan's failures as well as its successes.

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The American election

Showdown in St Louis

Oct 7th 2004
From The Economist print edition

A hint of a change in the electoral race and, finally, of a proper debate

AP

ALL eyes will now turn to St Louis. The Missouri city is the host for the second of the three presidential debates. The fact that this is now being hailed as a crucial showdown proves once again the old adage: a week is a long time in politics.

Before the first debate in Miami, John Kerry seemed on his way out. A campaign that lacked focus and bite was gradually being worn down by George Bush. The Democratic challenger's "victory" in last week's debate (people in our YouGov poll reckoned he won by a margin of 51% to 18%) had something to do with Mr Kerry finally doing things right: for once, he spoke in sentences rather than paragraphs, he defended his flip-flops on Iraq stoutly, and he looked presidential. But it had far more to do with Mr Bush underperforming.

The president has never been a Cicero; but he usually gives the impression of a determined man who is comfortable in his skin, and he exudes that crucial sense of likeability that bonds voters to presidents. In Miami, Mr Bush seemed closer to the petulant dauphin whom John McCain so nearly toppled in the Republican primaries in 2000. To make matters worse, the president decided to exhibit his least likeable side in front of a far bigger television audience than expected. Most polls still show Mr Bush with a small lead; but another shifty performance in St Louis could be a savage blow to the incumbent.

Is the American election really all about style rather than substance? This week, *The Economist* includes a special supplement on the issues behind the election, detailing the candidates' positions and examining the facts. To cynics about American politics, it is the story of the campaign that should have been. Would that some of the time spent discussing who did what 35 years ago during the Vietnam war had been spent on, say, education or the vast challenge that America's government finances will face when the baby-boomers retire. Such things matter enormously to policy wonks: this week, we also publish our poll of academic economists, who, rightly, take a dim view of Mr Bush's fiscal indiscipline—a subject about which the American public seems to care decidedly less.

But do not despair. To begin with, personality does count. For instance, the fact that Mr Kerry often seemed worryingly indecisive throughout the summer on everything from foreign policy to what he had for lunch is not a small thing. Nor was his apparent inability to handle Mr Bush's fusillades. As for Mr Bush, the defensiveness and testiness so evident in Miami may well indicate to his critics a president who has thought through the big issues too little.

More important, there are signs that the election is turning at last to address the real challenges facing the president. In some cases, the change has been gradual. For instance, Mr Bush's ambitious attempt at education reform has become an important tool for the Republicans to lure in swing voters (see Lexington). But the most dramatic change has happened over what should indeed be the central part of this campaign: Iraq and the war on terror.

Got the Baghdad blues this morning

In Mr Bush's case, there is the distinct sound of chickens coming home to roost. This newspaper has not wavered in its support for Mr Bush's initial decision to go to war. But it is also clear that the administration made grievous errors, which it has not explained and which, until recently, Mr Kerry has done too little to call the president to account for. In particular, the White House exaggerated the evidence of weapons of mass destruction, a point again underlined by this week's report from the Iraq Survey Group (see article); and, given that it was fighting a war of choice, it failed to plan for the aftermath properly. In Miami, Mr Kerry pounded Mr Bush on all these questions. And Mr Bush has now been put on the spot by his own lieutenants. This week Donald Rumsfeld, the defence secretary, admitted (at least for a while) that he knew of no clear links between Saddam and al-Qaeda; and Paul Bremer, the former American administrator in Iraq, said that Mr Bush had sent too few troops to Iraq to rebuild the country.

If Mr Bush still has plenty of explaining to do about the past, Mr Kerry deserves to be pushed much harder on the future. In Miami, he again gave the impression of thinking that a multilateral force to pacify Iraq could somehow be magicked out of thin air, were he to become president. That is delusional talk—something he surely knows.

Regardless of one's political bias, these are important questions. The hope must be that this final phase in the campaign will also prove the most revealing. Roll on St Louis.

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Turkey and the European Union

The coming crescent

Oct 7th 2004
From The Economist print edition

EU leaders must do more to persuade their voters of the benefits of Turkish membership

IT HAS been so long trailed as to seem an anti-climax. Anyway, the decision by the European Commission on October 6th to recommend opening EU membership talks with Turkey needs the unanimous approval of EU leaders in December. And there is no prospect of Turkey actually joining for at least ten years. Yet none of this should detract from the moment's historic importance. This week marks the start of the most significant, and controversial, expansion the EU has ever tried.

The club has previously taken in big countries, such as Britain (1973) and Spain (1986). It has admitted poor countries—Portugal (1986), Poland (this year). It has even accepted countries whose entry was, at best, contentious: Greece (1981) or Cyprus (this year). But Turkey is unique in its combination of size (it may soon be the biggest EU country by population), poverty (it is poorer than even the poorest member today) and dominant religion (Islam)—as well as in the hostility its prospective membership arouses across Europe.

The Economist has long believed that Turkey should be admitted to the EU. Its economy and population are growing fast, unlike those of many ageing and sclerotic EU members. Its military strength and foreign-policy clout would be valuable. EU membership would entrench the substantial democratic and human-rights reforms that Turkey has already made. Perhaps most important, letting in a Muslim (albeit fiercely secular) country would show both that the EU is not a Christian club and that Islam can be compatible with liberal democracy. Saying no, in contrast, would be a blow not just against Turkey but against the entire Muslim world.

But none of this cuts much ice with opponents of Turkish entry. Polls suggest that, in most EU countries, a majority of voters are against. This matters, since there is a rising chance of some countries holding referendums on Turkish membership. In France, President Jacques Chirac, worried that the Turkish question might torpedo next year's referendum on the EU constitution, has now promised a vote before Turkey joins. Indeed, he is proposing to change the French constitution to require referendums before any future EU expansion. This is a new idea, though France held a vote in 1972 on Britain's entry.

One implication is that it is now more urgent that Europe's political leaders persuade their voters of the case for expanding the EU. Most of them failed lamentably to do this in the run-up to the arrival of ten countries, mostly from central Europe, in May. The result was a rash of scare stories about the cost, in cash and in floods of immigrants. Add to such worries all the popular concerns about Islam, and there are sure to be far more scare stories about Turkish entry.

This time round, Europe's governments must do more to head them off in advance. They can offer reassurances to the worriers, such as the “emergency brake” that the commission has proposed to suspend membership talks if Turkey reverses its reforms, or the “safeguard clause” that may allow controls on immigration to be kept for many years (see article). But they also need to start making the positive case for Turkish admission, on economic, demographic and strategic grounds.

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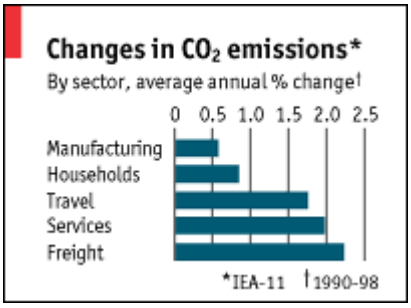
Climate change

Carry on Kyoto

Oct 7th 2004
From The Economist print edition

The Kyoto treaty on global warming is about to come into force

Get article background



LIKE a swamp creature in a bad horror movie, the Kyoto treaty on climate change has risen from the dead. A certain Texan cowboy thought he had killed the Japanese monster. Alas, thanks to a last-minute betrayal by an inscrutable Russian spymaster, the green beast is back.

That is only a slight exaggeration of how some people view the revival of the Kyoto protocol. The controversial UN treaty, agreed in Japan in 1997, commits rich countries to cuts in emissions of greenhouse gases by 2012. But it was dealt a near-fatal blow when George Bush confirmed America's rejection in 2001. The EU, Japan, Canada and over 100 others remained in, but Russia wavered. If it did not ratify, the pact would fail.

Vladimir Putin played coy and angled for special favours. The Russians had anyway been bribed with generous emissions targets, which they had expected to sell as credits in the international emissions-trading market envisaged by the treaty. With the departure of America, the biggest emitter, Russia's windfall (mocked as “hot air”) largely vanished. Only clever manoeuvring by the EU, including support for Russian entry into the World Trade Organisation, saved the treaty. Mr Putin's cabinet has just formally approved the pact, and the parliament is expected to ratify it shortly.

Not everyone is rejoicing. Kyoto-bashers claim the deal is dangerously deluded, citing environmental and economic grounds. That is unfair. Some insist that the emissions targets will slow the warming trend only slightly. That is true, but Kyoto was always seen as the first step in a decades-long journey—akin to the early GATT trade rounds. Some sneer that there are no legal sanctions for non-compliance. That is again true, but misleading. For example, Kyoto rules have the full force of domestic EU law, so future European offenders can indeed be hauled before the court of justice in Luxembourg.

Others claim that Europeans will choose to buy Russian “hot air” rather than tackle the tougher job of making emissions cuts. But EU countries have agreed to meet more than half of their emissions targets at home. Moreover, it is not in Russia's interest to dump its carbon credits and risk a price collapse. Since credits are “bankable”, Russia will do better to hold on and hope that America will enter the market in future, greatly lifting their value. As for costs, the original targets were too ambitious. Economic sense argues for a gentle start to emissions cuts, moving flexibly towards deep cuts in the long term. That would be the surest way to spur the development and adoption of low-carbon energy technologies. These anyway need to be embraced by the Kyoto countries in future if the broader process is to be a success.

The EU's initial rejection of emissions trading (done at the behest of green lobbyists) made it impossible for America to stay in the treaty. But European industrialists then realised that Kyoto might put them at a disadvantage and so pushed for carbon trading. Ironically, the EU is about to launch the world's first international carbon-trading system. America, which pioneered such trading, is left out. Canada, Japan and maybe even cheeky California will soon join Kyoto-land (see article).

The emergence of this innovative market is the best reason to stick with Kyoto, but to make sure its flaws are fixed. Because climate change is so complex, any sensible response must be market-based—as Kyoto has belatedly become. It is a long-term problem, because carbon dioxide stays in the air for a century. That is why the UN framework on which Kyoto rests (happily, Mr Bush still accepts it) is rightly long-lived.

Negotiations start next year for the next Kyoto commitment period (which begins in 2012). Informal efforts are underway to bring the 20 biggest emitters on board. That will mean widening the treaty's scope to include developing countries such as China and India. Tony Blair intends to use Britain's position as head of both the EU and the G8 next year to woo America.

Even so, it will not be easy. Some European greens are foolishly insisting on another rigid Kyoto round. Rather, negotiators must hold on to the best aspects of Kyoto, such as trading, and leave behind a failed “targets and timetables” mindset. More creative proposals, ranging from emissions targets pegged to GDP growth to fuel-efficiency commitments, are needed to persuade America, and perhaps even China, to agree to meaningful participation. A less aggressive treaty that actually works is surely better than a failed one.

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English

Out with the long

Oct 7th 2004
From The Economist print edition

“Short words are best”, said Winston Churchill, “and old words when short are the best of all”

AND, not for the first time, he was right: short words are best. Plain they may be, but that is their strength. They are clear, sharp and to the point. You can get your tongue round them. You can spell them. Eye, brain and mouth work as one to greet them as friends, not foes. For that is what they are. They do all that you want of them, and they do it well. On a good day, when all is right with the world, they are one more cause for cheer. On a bad day, when the head aches, you can get to grips with them, grasp their drift and take hold of what they mean. And thus they make you want to read on, not turn the page.

Yes, yes, you may say, that all sounds fine. But from time to time good prose needs a change of pace—a burst of speed, a touch of the brake, a slow swoop, a spring, a bound, a stop. Some might say a shaft of light and then a dim glow, some warp as well as weft, both fire and ice, a roll on the drum as much as a toot on the flute. Call it what you will. The point is that to get a range of step, stride and gait means you have to use some long words, some short and some, well, just run of the mill, those whose place is in the mid range. What's more, though you may find you can write with just short words for a while, in the end don't you have to give in and reach for one of those terms which, like it or not, is made up of bits, more bits and yet more bits, and that adds up to a word which is long?

Then there is the ban on new words, or at least a puff for the old. Why? Time has moved on. The tongues of yore need help if they are to serve the way we live now. And, come to that, are you sure that the Greeks and Gauls and scribes of Rome were as great as they are cracked up to be? Singe my white head, they could make long words as well as any Hun or Yank or French *homme de lettres* who plies his trade these days.

Well, yes, some of those old folks' words were on the long side, but long ones were by no means the rule. And though the tongue in which you read this stole words from here and there, and still does, at the start, if there was one, its words were short. Huh, you may say, those first “words” were no more than grunts. Yet soon they grew to be grunts with a gist, and time has shown that, add to the length of your words as you may, it is hard to beat a good grunt with a good gist.

That is why the short words, when old, are still the tops. Tough as boots or soft as silk, sharp as steel or blunt as toast, there are old, short words to fit each need. You want to make love, have a chat, ask the way, thank your stars, curse your luck or swear, scold and rail? Just pluck an old, short word at will. If you doubt that you will find the one you seek, look at what can be done with not much: “To be or not to

be?” “And God said, Let there be light; and there was light,” “We are such stuff as dreams are made on,” “The year's at the spring/And day's at the morn.../The lark's on the wing;/The snail's on the thorn.”

It can be done, you see. If you but try, you can write well, and say what you want to say, with short words. And you may not need a lot of them: some words add just length to your prose. That piece of string, the one whose length you all the time have to guess, is no less fine if it is short than if it is long; on its own, its length is not good, not bad, just the sum of its two halves. So it is with words. The worth of each lies in the ends to which it is put. Tie your string well, or ill, and its length counts for naught. Make your point well with short words, and you will have no use for long ones. Make it not so well, and you will be glad that you kept them crisp. So, by God, will those who have to read you.

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Letters

Oct 7th 2004
From The Economist print edition

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FAX: 020 7839 2968 E-MAIL: letters@economist.com

At your service

SIR – Everyone knows that the Japanese are great at manufacturing and awful at services ("Dead firms walking", September 25th). But are you entirely fair? Your chart of growth in manufacturing and non-manufacturing is dubious. Your choice of start date—the second quarter of 2002—coincides with the beginning of the recovery from a recession in which manufacturing was hit much harder than services.

For a more optimistic view of the Japanese service sector, get up early on a Saturday morning and watch children's TV. Most of the cartoons are Japanese. Check the videogames that your children play. A little fanciful perhaps but there was a time when the mighty British motorcycle industry laughed at the pitiful efforts of Honda, Yamaha and the like. And where are Norton, Vincent and BSA now?

Jonathan Allum
London

Take the Lo road

SIR – You say that "Vincent Lo's career shows what it takes for an outsider to succeed in China" (Face value, September 25th). Mr Lo's commendable success is the result of his own hard work and he has shown what it takes to succeed in China. But he is not an outsider. A shared ethnicity, language and cultural base are enough for him to be considered one of China's own. When it comes to establishing the social and political ties so crucial to success in China, what an outsider needs most is an insider like Mr Lo.

John Fuhrman
Beijing

Big cat napping

SIR – You are wrong that Jaguar's losses in America result from their making cars that are "expensive and dull" ("Stuck in the rough", September 25th). The real reason is a dramatic decrease in the quality of material and construction since the late 1990s. If a high-end carmaker lost sales through expense and dullness, would Lexus fare as well as it does in America? Don't count on the medium-term prospects for Renault and Citroën on returning to America. To the American car buyer, their designs would seem quirky at best and that they are French cars would make them controversial. The car firm with the better chance of an American comeback is Alfa Romeo.

Gunnar Heinrich
Washington, DC

Defending women's rights

SIR – Douglas Sylva rehashes discredited claims against the United Nations Population Fund (Letters, September 25th). A handpicked team sent to China by the American administration found no evidence that the fund supported coercive abortion. In fact, it reported that the UNFPA had registered strong opposition to such practices. The team also recommended the release by Congress of funds appropriated for the UNFPA. Three other independent teams reached the same conclusion. The panel also documented

the fund's efforts to end any “administrative” measures to deter pregnancy. Even the State Department report cited by Mr Sylva concedes that the UNFPA has urged actions towards their elimination.

Safiye Cagar
UNFPA
New York

Thought leadership

SIR – Charlemagne's analysis of the problems of Europe's universities focuses on the economic and political dimensions of the issue (September 25th). As an American professor who has taught classes at a well-known French university in which both European and American students were enrolled, I must mention the cultural factors at play. While the innate quality of the European students was very high, for the most part their study habits were frightful. Homework seemed a foreign concept, at least until the contrary behaviour of the American students, who actually turned in the completed assignments, proved an example the Europeans elected to emulate.

Furthermore, in America today it is exceedingly rare to find the kind of insular ivory-tower mentality that makes professors in Europe so loth to interact with and keeps them isolated from the realities of their fellow citizens.

David Abrahamson
Northwestern University
Evanston, Illinois

SIR – I agree with your dim view of the European Union as the most competitive “knowledge economy” in the world. The only way to catch up with America is to privatise European universities, and that is unlikely to happen. The best and the brightest students and teachers around the world may be deflected temporarily from America because of the perceived terrorist threat, but Europe will attract few of them and keep even fewer as long as bureaucrats rather than the marketplace manage the university system.

Ranko Bon
Motovun, Croatia

SIR – Having taught at universities in America and Britain, I can safely say that the tendency of students to “dawdle pointlessly” crosses borders. It occurs even when massive fees are paid or rigorous selection procedures applied. After all, it is sometimes through pointless dawdling that you actually learn something. Ask any academic.

Charles Lockwood
University College
London

A flood of evidence

SIR – The claim that Haiti's natural disasters are both a cause and consequence of the misery of the country's poor is plausible and compelling (“Inundated”, September 25th). But the idea that peasant farmers chop down trees allowing water to run off the hillsides taking the topsoil with it and thus causing floods does not reflect the facts. Studies show that forests do mitigate floods linked to small storms. For larger and more damaging events, such as tropical storm Jeanne, there is little evidence that forests offer real benefits. Whatever the land use the rainfall has to run somewhere.

In extreme hurricane conditions it is also not clear whether forests reduce erosion much. Landslips still occur on steep slopes, forested or not. On forested slopes there may be the additional problem of washed-away trees destroying bridges and blocking culverts, exacerbating flood damage. Reforestation is unlikely to reduce Haiti's problems with flooding, and repressive efforts to stop small farmers from collecting wood for fuel could make a bad situation worse.

Ian Calder
Centre for Land Use and Water Resources Research
University of Newcastle
Newcastle-upon-Tyne

David Kaimowitz
Centre for International Forestry Research
Bogor, Indonesia

Sun dial

SIR – Contrary to what Ricardo Cabeza alleges, I am proud to say that our government phone menu here at the National Weather Service has an option to speak to a meteorologist (Letters, October 2nd). We talk to several people a day at our forecasting office, gladly giving out information and occasional advice on whether that umbrella is really needed or not.

Diana Henderson
San Francisco

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Afghanistan

Voting in warlord country

Oct 7th 2004 | BALKH, GARDEZ, HERAT AND KABUL
From The Economist print edition

PANOS

Success in Afghanistan hangs on more than holding a presidential election

Get article background

FOR a spectacular vanishing act, take two hamfisted Afghan terrorists and one anti-tank mine. The results, seen last week in Kulangar, a village in south-eastern Lowgar province, were impressive. A few scraps of blue and white cotton and a thick, livid smear were all that seemed to be left of the pair who had tried mining the road ahead of your correspondent's car. A murmuring crowd gathered, treading on fragments of campaign posters for Hamid Karzai, Afghanistan's American-backed ruler. A week or so before the presidential election on October 9th, the scene suggested that Afghanistan is not quite the shining success George Bush has called it.

Only by comparison with Iraq—and its own former self—could it appear so. The resurgent Taliban have failed to grab back any towns from America's 18,000 troops. But, rearmed with drug money, their black-turbaned guerrillas and other extremists are terrorising the south and south-east. Security in northern and western Afghanistan, much of which is ruled by warlords, has deteriorated recently, with a spate of Taliban-style executions that have probably been carried out to guard the opium routes. So far this year, 48 aid workers, foreign road-builders and UN election staff have been murdered, as have many local officials. Last month, Mr Karzai had to abandon his first stab at a campaign rally outside Kabul after his helicopter came under fire.

Few of his 17 opponents even attempted to campaign. Among those few was Rashid Dostum, a roguish Uzbek who fought for most sides during Afghanistan's quarter-century of war and now rules a fief in northern Afghanistan. He was persuaded, however, not to pose for his poster in a cemetery; his advisers were mindful of how many people he had dispatched there. At one rally, the general begged foreign donors to bring water to his desert land, and then welcomed journalists to a palace boasting six swimming pools.

Poorer candidates outlined their visions in the four live TV slots that each candidate was allotted. Lengthy pauses and meticulous nose-picking were commonplace. Mr Karzai, the solid favourite, recited most of his inaugural speech twice. Massouda Jalal, the only female contender, offered her airtime to the president.

Therein, perhaps, lay a clue to Afghanistan's new democracy. Many of the candidates appeared to be angling for a plum job in what is expected to be Mr Karzai's next government, in return for withdrawing from the contest. Several accused America's tricksy ambassador, Zalmay Khalilzad, of attempting to broker such deals, a charge he rather shamefacedly denied. No Afghan doubts that America had a firm

hand in the pre-election planning, not least the country's transport minister, who was unfortunately slapped by one of Mr Karzai's bodyguards in the chaos of a rare presidential appearance.

Defying most predictions, none of Mr Karzai's opponents had backed out by the time *The Economist* went to press. Whether pacts have been made nonetheless—and Mr Karzai says they have not—will probably only be known when the next president names his cabinet, if ever. It was only one uncertain element in an election riven with coercion, corruption and incompetence.

Because the UN dares not send its foreign staff into much of the south since the murder of a French employee last year, it has relied on a few dozen western security experts and an army of brave locals to register voters and run the poll. In south-eastern Paktia province, Haji Hazrat, a snowy-bearded elder, said his powerful Pushtun tribe had been compelled to carry out its own brand of civic education. Over a dish of mutton stew in his mud-fortress home, Mr Hazrat explained how, last month, 500 tribal elders gathered to discuss the vote. They agreed that everyone in Afghanistan's three south-eastern provinces would vote for Mr Karzai. Then they ate, prayed and went to Kabul to inform the president. Asked whether there would be any exceptions to this rule, Mr Hazrat replied: “Is there not one thief in England?”

Mr Hazrat's method also indicates a weakness in Afghanistan's traditional ways. In neighbouring Khost province, another Pushtun tribe has decreed that anyone who does not vote for Mr Karzai will have his house burnt down.

How many people were actually entitled to vote, to the nearest few millions, has been something of a mystery. The UN estimated 10.5m eligible voters and, against expectation, registered almost that number, 41% of them women. But the original estimate was based on a 1979 census taken before a war in which 2m died and one-third of the population was displaced. Some registrations, too, are dubious. Many voters, perhaps 30% of the total, appear to have registered many times. Children are thought to have been registered, and, in the wild south-eastern provinces near the border with Pakistan, foreigners as well. Voter-registration in Paktia reached 170% of the target, but in southern Zabul province, where the Taliban roam, it was only 55%, with 7% women.

Indelible ink

The UN said each voter would be marked with indelible black ink, so that no one would be able to vote twice. But that depended on the reliability of the local officials manning 21,000, mostly observer-free, polling sites. The EU and other foreign organisations mustered fewer than 200 election observers. Indeed, to get round the EU's standards, under which the vote would have been condemned from the outset, they were not called “election observers”, but “democracy-support teams”.

In all but the most perilous places, German-trained police were charged with guarding voters against intimidation and Taliban attacks. But as only two policemen existed for each polling site, and as many had received only a fortnight's training, accidents seemed likely. In the town of Balkh, on the fault-line between the domains of Mr Dostum and his warlord neighbour, one would-be voter, 21-year-old Rahmatullah, supposed that people would be pressured to vote for the local commander's candidate. The last time Rahmatullah defied this strongman, by asking to be paid for slaving in his poppy fields, his house was blown up.

Given these potential snags, and that many Afghans were voting for a leader who would barely affect their daily lives, the election posed a question: Why on earth was it being held? Because Afghans wanted it to be held, is one answer. For Mr Bush and his election campaign, is another. After several postponements, Mr Karzai called the poll against the advice of the UN, which wanted it delayed again, and at the bidding of his patrons in Washington. Doubtless, they wanted Mr Karzai to accrue some legitimacy. But they also wanted to show America's voters a cheerier image of Mr Bush's foreign policy than Iraq can provide.

The election that Afghans have been given, however, is not what they were promised at last year's *loya jirga* to enshrine their new constitution. The presidential poll was to be in tandem with a parliamentary election, which would have meant much more to rural Afghans. The parliamentary poll is currently due in April. But since constituencies have not yet been marked out, and since to do so will require a much more precise electoral roll, this looks unlikely. Very possibly, the first act of Afghanistan's first democratically elected leader will be to postpone the parliamentary election yet again, and so extend his rule-by-decree.

Mitigated happiness

The election is thus not exactly a vindication of the policies America and its allies have pursued in Afghanistan. But, as the first nationwide comment on them, it is an apt moment to consider their progress. And the conclusion must begin with the fact that, despite many troubles, most Afghans are much happier and more hopeful than they were under Taliban rule, which is why Mr Karzai should win. Three million returnees have indicated as much, flooding back from Iran and Pakistan. Under a NATO-led peacekeeping force, ISAF, Kabul is booming. A group of overseas Afghan businessmen felt sufficiently confident in their country's future to invest $25m in a new Coca-Cola plant. In the last fiscal year, the economy grew by 20%.

Yet these successes may be misleading. Protected by two first-world armies, richer by over $2 billion a year in aid cash, and massively supportive of the reconstruction effort, Afghans should be happier. A better question is this: is the rebuilding on track to create a plausible, terror-free Afghan state in the few years before the donors lose interest and move away?

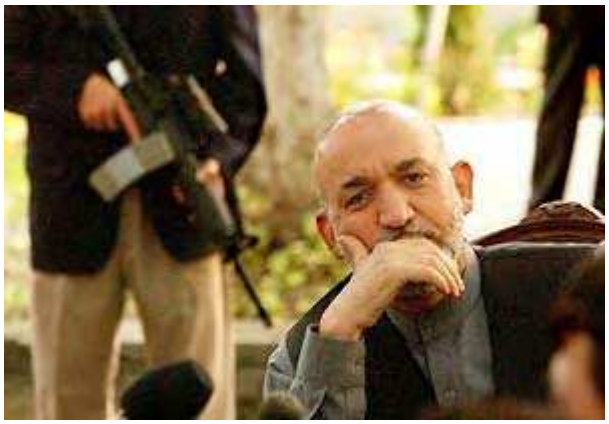
To appreciate the scale of that task, ponder Afghanistan's recent history. Fifteen years ago, the Soviet army withdrew from the country, ending a bitter decade-long occupation. Bands of *mujahideen*, formerly

based in Pakistan and backed by Saudi Arabia and America, charged in. A vile civil war ensued, in which the average top-level holy warrior revealed himself to be a depraved tribal warlord. In 1992-96, according to the Red Cross, 50,000 civilians were killed in Kabul alone, and the city was flattened.

To end the chaos, Pakistan armed a band of bumpkin Pushtun clerics, the Taliban. As they swept northwards, ecstatic Afghans threw flowers at their feet, and the warlords fled into northern Afghanistan, Iran and Central Asia. There they remained until October 2001, when the CIA came calling. To avoid putting its own boys in harm's way, America required gunmen to remove the Taliban. The warlords duly obliged.

America's policy of employing Afghan militias won it a swift victory, although it probably enabled senior al-Qaeda and Taliban figures to escape by paying fat bribes. After the Tajik-based Northern Alliance was permitted to take Kabul, it also ensured that men with no technical expertise, except prowess in killing Soviet conscripts, could claim powerful jobs in Afghanistan's transitional government.

AP



Karzai presides beatifically over chaos

That government has since been defined by the efforts of some of its members to squander aid money, peddle opium and maintain militias, and by the efforts of a handful of reformers to stop them. Chief among the latter is Ashraf Ghani, the finance minister, a frail visionary who is responsible for most of the government's achievements. These include a stable currency, a single treasury account and a rigidly implemented budget. Mr Karzai, meanwhile, has presided beatifically over the chaos. A decent fellow, he appears sympathetic to the reformers, but has not given them full support. He has reason for caution. The bigger warlords, and the Taliban, have retained their foreign backers: over the past three years, guns and cash have flowed in from Iran, and from Islamic groups in Turkey, Uzbekistan, Russia and Pakistan. Meanwhile, Mr Karzai must often have wondered how serious his sponsors really were.

America's priorities

It took no time for the vaunted strength of the rescue effort in Afghanistan—the involvement of most of the world's rich countries—to prove a weakness. With no agile power willing to take charge, bilateral contributions have often been derisory and poorly co-ordinated. ISAF is the epitome of a collective failure. A year after taking charge of the multinational force in Kabul, NATO has managed to coax 250 German soldiers to leave the capital for one of the most peaceful towns in the provinces—and little else. With orders to ignore the opium trade, the Germans appear terrified of confrontation—except for their elite health and safety team, which snatched a perfectly good slice of pizza from your correspondent in the ISAF mess.

The agile leadership that Afghanistan has needed, only America has had the resources to provide. But, until recently at least, America has not provided. It has focused on waging a war in the south, not on state-building. America was unconcerned at first, for example, by the explosion in opium production that followed the Taliban's demise: after all, most Afghan heroin ends up in Europe.

In recent months, however, its attitude has changed. Pentagon officials have begun to realise that Afghanistan's problems are profoundly inter-connected. Insecurity feeds off drug production and drought. Opium money emboldens warlords, which weakens the government. It also buys bullets for the Taliban to kill American troops. In March, extremist Islamic schools in Pakistan closed to provide labour for the poppy harvest in Helmand, a province of southern Afghanistan and a Taliban hotbed. America still has no

useful policy on counter-narcotics—on which Britain has laboured in vain, if more hopefully of late—but Donald Rumsfeld, the defence secretary, has said he would like one.

His epiphany was not before time. America's $10 billion-a-year military campaign appears to have been hugely unproductive. No notable al-Qaeda figures have been found in Afghanistan for two years. Early this year, American army officials in Afghanistan vowed that Osama bin Laden would be snared before the year's end, but they have not repeated their pledge. Instead of hunting al-Qaeda, American troops seem to be fighting an inexhaustible supply of Taliban and other small-time crazies, drug traffickers, bandit gangs and local men whom they have enraged by blowing in their front doors and searching their women's quarters for arms.

As helpers leave

Wanting to be liked, American troops have drilled wells and built schools across the south. As a result, aid agencies are now hated. In June, Médecins Sans Frontières, a courageous aid group, quit the country after five of its staff were killed in north-western Badghis, and denounced America for blurring the distinction between aid workers and soldiers. Most aid agencies pulled out of the south last year; many are now wondering what it would take for them to leave Afghanistan altogether.

A Danish agency, DACAAR, has enjoyed a typical past month. One of its houses in Kabul was flattened by a suicide bomb. Its compound in south-eastern Laghman province was bombarded with rockets, and its staff were forced to flee Badghis province. An American warplane mistakenly bombed DACAAR's camp in eastern Kunar province, killing six people. Violent, parched and deprived of aid, much of southern Afghanistan mirrors the conditions that spawned the Taliban. In southern Zabul, one aid worker was told: “We are so desperate, we would take help from the Devil.”

But there is hope. If America seems unable to reverse its military juggernaut, it has adopted better policies in other areas. In the last fiscal year, the United States spent $500m on reconstruction; this fiscal year, it is spending $2.3 billion. Greater American effort on training the new Afghan army is yielding better results. Last year, when the first army units emerged, up to half were liable to desert. With improved pay of $70 per month, and an emerging *esprit de corps*, new recruits are less likely to leg it. The army is currently 15,000 strong, big enough to give any warlord pause.

Big enough, even, to encourage Mr Karzai to start throwing his weight about. In July he dropped Mohammed Fahim, the defence minister and the man most likely to make donors' toes curl, as his running mate. He also exploited a series of battles between warlords in western Afghanistan, which led to the removal of Herat's troublesome warlord-governor, Ismail Khan.

As the violence cooled, frightened Heratis revealed much about the state of Afghanistan. On the edge of the city, a group of impoverished Pushtun refugees complained that Mr Khan had bulldozed their mud homes to grab land for his Tajik fighters. In nearby Shindand, where Mr Khan's militia suffered defeat, an elderly Tajik complained that marauding Pushtuns had garrotted his brother with a turban. No one had much love for the deposed tyrant. But everyone was concerned that Mr Karzai should be able to deliver at least the oppressive calm Mr Khan had imposed.

Whether Mr Karzai, or whoever is elected president, will eventually calm the parts of Afghanistan beyond the control of Kabul remains to be seen. The first clue should appear in the line-up of the new government. A smaller, cleaner cabinet, and fewer drug-peddling provincial governors, would look good to many Afghans. The same line-up, mostly a rabble whose jobs have been secured by pre-election pacts, would not. Afghans know little about democracy. But, after their experiences of communism and Islamic fundamentalism, they know when they are being sold a dud.

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The presidential election

Kerry's comeback

Oct 7th 2004 | CORAL GABLES, FLORIDA, AND CLEVELAND, OHIO
From The Economist print edition

Eyevine

The start of the debate season has shifted the contest. But by how much?

AMERICAN elections are a sequence of rituals. Every four years, candidates throw baseball pitches, kiss babies, campaign from trains in whistle-stop tours and eat at Mary Anne's Diner in Derry, New Hampshire. The two conventions are like medieval tournaments, in which the parties bang their shields and see who shouts loudest. And—still following chivalric codes—the debates are the single combat of kings and princes, following arcane rules of procedure and scoring by pundits.

Yet for all the formality, the first half of this year's debate season—the first of three presidential debates in Coral Gables, Florida, and the sole vice-presidential one in Cleveland—surmounted its limitations. George Bush and John Kerry actually listened to and responded to one another, producing a debate of some consequence. The vice-presidential contest was less consequential and testier, but it put the two sides' records under sustained scrutiny. The debates even changed the dynamic of the race, though by how much, and for how long, remains to be seen.

In 1980, Ronald Reagan, by standing next to Jimmy Carter and talking with him on equal terms, made it possible for voters to imagine him as president. He erased voters' fears that he would risk nuclear conflagration with Russia and could not be trusted with the secret codes. And with his famous closing question—“Are you better off than you were four years ago?”—he defined the campaign as a referendum on the incumbent's record. To a lesser extent, Mr Kerry did all three of those things, too.

One of the debate rules was that broadcasters should not show one man's reactions while the other spoke. The networks immediately disobeyed this unenforceable rule and showed the candidates in split screen. The contrast was as great as it had been in 2000, when Al Gore was remembered best for sighing, strutting and painting his face orange.

This time it was Mr Bush who wavered between defensiveness and aggression. He stood there, scowling, with drooped shoulders and mouth pulled tight, listening to Mr Kerry with all the attention and pleasure of a man clenching a dollar bill between his buttocks. It was Mr Kerry— straight backed, crisply spoken, pleasant smile nailed on—who looked the part. This impression hardened after the event, when debates are won and lost. Mr Bush's mannerisms raised thoughts that he could not deal with criticism because he heard it so rarely in the councils of government. Then, at the vice-presidential debate, Mr Edwards, usually regarded as a blow-dried lightweight, emerged without too much damage from a bruising contest

with Mr Gravitas, Dick Cheney. He did not Quayle.

More than 60m people watched the first debate, around 40m more than saw either candidate's acceptance speeches at the conventions. Almost 40% of likely voters were in effect seeing Mr Kerry for the first time. As with Reagan in 1980, they could imagine him as president.

Mr Kerry did not demolish his own caricature as effectively as the Gipper did. He was asked whether his own question about Vietnam to the Senate in 1971—"How do you ask a man to be the last man to die for a mistake?"—applied to Iraq, a war which Mr Kerry has described as "a colossal error of judgment". Mr Kerry replied no, because he had a plan to win the peace. That seemed to leave him arguing that Iraq had been a mistake, but American soldiers would not be dying for that error if only he were to become president.

Mr Bush had some success in claiming Mr Kerry was sending mixed messages to allies and American troops. In his debate, Mr Cheney had more by mounting a straightforward assault on Mr Kerry's Senate voting record ("a consistent pattern over time of always being on the wrong side of defence issues").

Yet Mr Kerry still managed to mitigate his errant reputation. His formulations were succinct. First, as he put it: "Saddam Hussein was a threat. There was a right way to disarm him and a wrong way. And the president chose the wrong way." Then later: "I made a mistake in how I talk about the war. But the president made a mistake in invading Iraq. Which is worse?"

What these formulations have in common is that Mr Kerry sought not to defend himself against criticism but to use the criticism as a way of attacking the president. He could have tried to justify his erratic votes on the $87 billion reconstruction package by saying he voted for it when the bill was budgeted for, and against when it was not. Instead, he turned the question back on what President Bush had done. That is emerging as the essence of the Democrats' election strategy.

If Mr Kerry's task was (like Reagan's) to erase doubts about his candidacy, Mr Bush's was to reassure voters worried about casualties in Iraq that he knows what he is doing there. Curiously, he barely tried to do this. In reply to the question which most directly invited such reassurance—has the war been worth the cost in American lives?—the president talked hardly at all about what American policy had achieved. Instead, he gave a long account of a tearful meeting with a widow of the Iraq war. In contrast, Mr Kerry responded by talking about his four-point plan for Iraq.

In practice, this plan—to get more international troops, to step up training Iraqi security services and to take more vigorous action to safeguard coming elections—differs little from what Mr Bush is doing anyway. The main difference is that the senator would call a summit to ask for international support, though whether that would have any practical effect on the situation there is doubtful.

Yet by and large, the debate on Iraq helped the challenger. Mr Kerry concentrated discussion on what was happening inside the country and not, as the president wanted, on Iraq seen as part of the war on terror. A full hour of the first 90-minute debate was spent discussing a country where Mr Bush's policies have been called into question three times just this week by his own people: by a final report into Iraq's missing weapons of mass destruction (see article); by the former American administrator, Paul Bremer, who claimed that there had been too few American troops there; and even by Donald Rumsfeld, who said there was no "strong, hard evidence" of links between Saddam and al-Qaeda (though he later "clarified" his position on this heresy).

Whose record are we discussing?

Mr Kerry's most important achievement was to repeat, in some measure, the last of Reagan's three achievements: to switch the focus of attention away from himself and on to the incumbent. For two months after the Democratic convention, the main issue of the campaign had been Mr Kerry himself. He had not stood up to such scrutiny well: Mr Bush opened up a clear lead in the polls.

At the first debate, though, Mr Bush rather admirably passed up an opportunity to hammer his advantage home. Asked whether there were "underlying character issues that you believe are serious enough to deny Senator Kerry the job as commander-in-chief", the president called the question "loaded", talked of Mr Kerry's service to his country and said he was "a great dad". Meanwhile, Mr Kerry hammered away at the president's record.

The results were immediate. By every measure, even the opinion of many Republicans, the senator won the first duel easily. Instapolls found viewers gave him the palm by a decent margin. If Mr Kerry can keep the spotlight on Mr Bush, he could put himself into a position to win. In incumbent races, undecided voters usually break overwhelmingly for the challenger (as they did in 1980). According to this theory, the most important polling indicator is not the gap between the candidates but the president's level of support—which is around 50%. Democrats also argue that Mr Kerry will be able to keep the spotlight on Mr Bush in the next two debates, which will focus more on jobs, the economy and domestic issues—generally Mr Kerry's stronger cards.

Yet it remains an open question whether Mr Kerry can really make the race a referendum on the president. Mr Bush's team has been skilful in raising questions about the senator. Mr Cheney returned to the fray at the vice-presidential debate, going after Mr Kerry's Senate votes. It may be that, when troops are under fire, reluctance to change commanders-in-chief trumps dissatisfaction with the incumbent.

So far, Mr Kerry's debate victory has not had a decisive impact. Nearly every poll showed him narrowing the gap on the president by between one and six points. A couple, including *The Economist*'s own, showed him marginally ahead. But most showed Mr Bush hanging on to a lead (see chart). And the vice-presidential debate, which did not produce a decisive result one way or the other, does not seem to have shifted the balance further towards Mr Kerry.

If, as some Republicans suggested, Mr Bush had a chance to knock his rival out of the race at the first debate, he fluffed it. Mr Kerry is back in contention. But in 2000, Mr Bush went from a few points behind before the debates to half a dozen points ahead afterwards. Mr Kerry has some way to go before matching that performance.

Miami nice

% of registered voters who say they would vote for either George Bush or John Kerry
(most recent poll taken before the Sept 30th debate)

Poll, fieldwork conducted October 1st-3rd	Bush	Kerry	Kerry's % point gain
The Economist/YouGov*	46 *(46)*	47 *(46)*	1
Gallup	49 *(53)*	47 *(42)*	5
Newsweek†	45 *(49)*	47 *(43)*	4
New York Times/CBS	47 *(49)*	47 *(41)*	6
Pew Research Centre	48 *(48)*	41 *(40)*	1
Washington Post/ABC	50 *(51)*	45 *(44)*	1
Zogby‡	46 *(47)*	45 *(44)*	1

*October 4th-5th †Sept 30th-Oct 2nd ‡Likely voters
Sources: *The Economist*/YouGov and other polls listed

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Oklahoma's Senate race

Nose to nose, and glaring

Oct 7th 2004 | EDMOND, OKLAHOMA
From The Economist print edition

When an ultra-conservative meets a gun-loving Democrat

“WHAT we need is some good old-fashioned common sense in Washington,” booms Tom Coburn, a family doctor who is Oklahoma's Republican candidate for the Senate. He is having things out, in this suburb of Oklahoma City, with Congressman Brad Carson. The Democrat accuses Mr Coburn of having described Medicare as a “Soviet-style system” (he says he just referred to “Soviet-style bureaucracy” in health-care management) and, rough stuff from a Democrat, of not supporting George Bush and the Patriot Act. Mr Coburn fires back that he is not a “professional politician”. Cheers from the crowd.

Actually, this exchange is relatively tame. Mr Coburn, a fiercely small-government conservative, has previously ranted about the “crapheads in Oklahoma City” who block economic development. He has also implied that he favours the death penalty for doctors who perform abortions. And it is worth taking a glance at the third Senate candidate, Sheila Bilyeu, a Naderite who has claimed that a transmission chip was planted in her head some years back.

Although Oklahoma has about 40% more registered Democrats than Republicans, and a Democratic governor, it rarely sends Democrats to Washington. Mr Bush leads John Kerry by 30 percentage points in the opinion polls. Yet Mr Carson is two points ahead of Mr Coburn. How come?

A Rhodes scholar who studied politics, philosophy and economics at Oxford, Mr Carson rides around the state in a pick-up truck, deploring the state of the local roads and bridges. He promises to get more money from Congress when he gets to the Senate. Unusually for a Democrat in Congress, he has a top rating from the National Rifle Association. And, at 37, he would be the country's youngest senator.

Still, Mr Carson should be doing better against an opponent whose ideas make even a lot of senior Republicans shudder. The Democrat has two problems. First, his own style: on television he rarely smiles, and recites his lines like a robot. And Oklahomans are well aware that their race could tip the balance of power in the Senate to the Democrats. Mr Carson avoids mentioning John Kerry by name (just “the Democratic nominee”, if you please).

Mr Coburn has troubles of his own. He went to the House of Representatives in 1995 but retired in 2001 after sticking to self-imposed term limits. (Mr Carson replaced him.) His small-government militancy has led him at various times to talk of closing down the Department for Housing and Urban Development, and of privatising Social Security.

Straight-shooting has won the doctor a core of passionate supporters. But he has been damaged by allegations (reopened by the online magazine *Salon*) that he improperly sterilised a 20-year-old woman in 1990. He says he had oral rather than written consent. Since such procedures may not be paid for by the government for anyone under 21, questions have surfaced about possible Medicaid fraud. Mr Coburn, who was also operating on the woman to treat an ectopic pregnancy, denies any wrongdoing and has the support of a Medicaid official.

As the mud flies, money has poured in—mostly to the Democrat, who has raised nearly $3m compared with Mr Coburn's $820,000, according to the Centre for Responsive Politics. Keith Gaddie, a professor of political science at the University of Oklahoma, says this is the costliest Senate race in the state's history. It may also be one of the closest.

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The electoral week

On the trail

Oct 7th 2004
From The Economist print edition

Memory lapse

“I'm up in the Senate most Tuesdays when they're in session. The first time I ever met you was when you walked on the stage tonight.”

Dick Cheney in his debate with John Edwards on October 5th. The often-absent ambitious young senator, it emerged, has met the vice-president three times previously, even sitting next to Mr Cheney at a prayer breakfast in 2001

Conspiracy-theorist alert

“Cheney can't be a neocon. He isn't Jewish.”

Paul Wolfowitz explains the vice-president's crucial limitations. Esquire magazine, November 2004

It is nearly Halloween

“If only I could go through the ducts and leap out on stage in a cape.”

Ralph Nader eyes up the presidential debates. Miami Herald, October 1st

Hungry for change

“I feel Ralph Nader was partially responsible for George Bush's victory in 2000. Stupidity is not a progressive value.”

Jerry Rubin, a 60-year-old Californian peace activist, began a hunger strike to protest Mr Nader's participation in the election. Los Angeles Times, October 3rd

The American dream

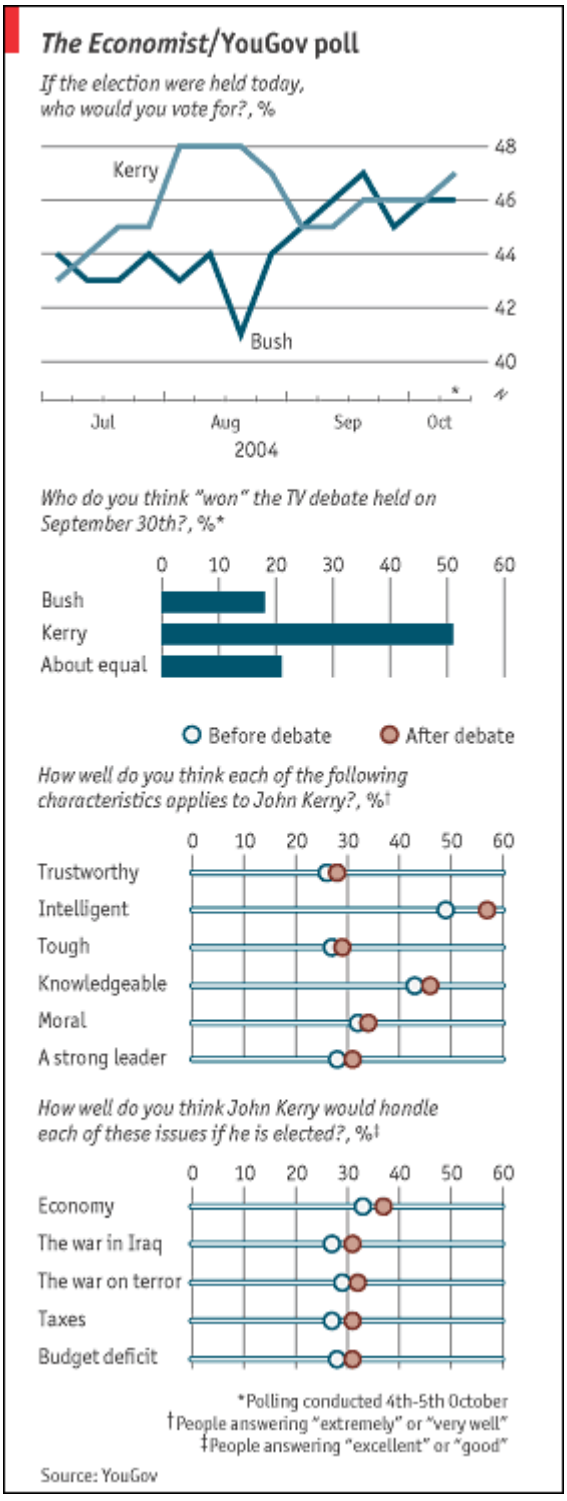
“His life story is amazing, showing how a boy from a poor family...in what used to be the Austro-Hungarian empire can become a [presidential] candidate.”

The mayor of Horni Benesov, a Czech town where Mr Kerry's grandfather was born, plans to give Mr Kerry honorary citizenship. Reuters, October 5th

Puppy training

“I'm trying to put a leash on them.”

George Bush on his daughters in the first debate, September 30th



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The Indiana governor's race

NASCAR country

Oct 7th 2004 | INDIANAPOLIS
From The Economist print edition

A close contest in a naturally conservative place

JOHN McCAIN once joked that his years as a prisoner-of-war in Vietnam squelched his desire to be vice-president. In Indiana, people wonder if Joe Kernan's POW experience has dampened his drive to be governor. It's an awkward question for Mr Kernan, who inherited the governorship when Frank O'Bannon died last year, because he is running for re-election this autumn after long proclaiming that he didn't want the job.

The genial Mr Kernan may need to show more fire to fend off a tough challenge in November. His Republican opponent is Mitch Daniels, who returned to Indiana to run for governor after years in Washington, most recently as George Bush's director of management and budget. Polls show the candidates neck-and-neck, with a slight edge for Mr Daniels.

The Republican touts his record as a Reagan protégé, a top man at Eli Lilly (the state's biggest employer), and a fiscal manager for Mr Bush (a cheeky claim, considering the size of the deficit run up by the current administration). He has strong support from the national Republican Party and business leaders, who want to end the Democrats' 16-year run in the governor's mansion.

In fact Democrats and Republicans are not so far apart in Indiana, a state notable for strong partisan ties but a relatively narrow ideological divide. Even the Democrats in Indiana are pretty conservative by national standards. Mr Kernan, a former mayor of South Bend who was Mr O'Bannon's lieutenant, contends he is cleaning up problems he inherited and wants more time as governor to create extra jobs. His economic initiatives seem to be starting to bear fruit: Caterpillar, a heavy-equipment giant, said last month that new business-tax laws have persuaded it to add workers at an Indiana factory where it had previously cut jobs. Overall, job losses have been slower in Indiana than in Michigan, Ohio and Illinois. Indianapolis, the capital and home to Eli Lilly, was the second-fastest growing big urban area in the mid-west in the 1990s.

The tight gubernatorial contest should come as no surprise. Although Democrats have had a long run in the governorship, the state legislature is split, and the congressional delegation tilts 6-3 towards Republicans. Indiana's senators represent both parties: Richard Lugar, a Republican, is chairman of the Senate Foreign Relations Committee, while Evan Bayh, a former governor, is a fairly moderate Democrat. John Roos, a political scientist at the University of Notre Dame and close friend of Mr Kernan, says self-declared Republicans have a 10-12-point advantage over declared Democrats in the state.

Conservatism in Indiana stretches from the south, which has a rural and religious character similar to nearby Kentucky's, to the northern manufacturing belt, full of blue-collar workers who take a leftish stance on trade and workplace issues but tend to be socially conservative. The middle includes Bloomington, a liberal university town, and Indianapolis. Although America's big cities tend to lean Democratic, Indianapolis is not so clear-cut: Mr Lugar was once mayor there, and the city is home to one of America's biggest motor speedways. “NASCAR voters”, the middle-class folk who have made car-racing one of America's favourite sports, often vote Republican. Mr Bush is in no trouble here; and that must surely help Mr Daniels, not Mr Kernan.

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Unguessable Oregon

The Beaver State flaps its wings

Oct 7th 2004 | PORTLAND
From The Economist print edition

But maybe just to keep people scratching their heads

STILL leaning to the Democrats, as the pundits have claimed for months—or is Oregon suddenly about to deliver its seven potentially vital electoral votes to George Bush? On September 30th a survey released by the state's most respected independent pollsters, Davis, Hibbitts & Midghall, concluded that John Kerry's lead over Mr Bush was a mere two percentage points, with 9% of the voters ready to change their minds and 7% undecided. To paraphrase the state's official motto, the electorate likes to “fly with its own wings”, not those of the punditocracy.

But it is still far from clear which way its wings will take it. The fact that Oregon's voters have chosen Democrat candidates in the past four presidential elections is not all that much comfort to Mr Kerry: in the last of those elections, in 2000, Al Gore carried the state by a mere 6,765 votes over Mr Bush. On the other hand, in 2000 Ralph Nader, on behalf of the Green Party, picked up 5% of the vote. This time round, to the Democrats' immense relief, Mr Nader has failed to get on to the ballot. Factor in a voter-galvanising appearance in Salem later this month by Michael Moore, a Bush-bashing *auteur*, and the Democrats' nerves may start to calm.

They already know that, within hours of that surprising survey's appearance, Mr Kerry had performed more than adequately in the first of his three debates with Mr Bush. But how come Mr Bush got within striking distance in the first place? Oregon's governor, Ted Kulongoski, is a Democrat. So are its secretary of state, attorney-general and state treasurer, and four of its five members of the House of Representatives in Washington, DC. Neel Pender, executive director of the Oregon Democratic Party, confidently predicts that strenuous Republican efforts to dislodge David Wu in the first district, which includes Portland, and Darlene Hooley in the semi-rural fifth, will be easily rebuffed: “They are both well-funded and popular.” And Oregon's Democratic senator, Ron Wyden is widely regarded as a shoo-in.

In short, if Mr Kerry fails to take Oregon it will be in large part his own fault. After all, there are plenty of issues which hardly flatter Mr Bush: the state's unemployment rate rose to 7.4% in August, even as that of the country as a whole fell to 5.4%; some 14% of the population under the age of 65 are without health insurance; Oregonians of all parties and none mistrust the president on the environment; and 54% apparently reckon Mr Bush has been leading the country in “the wrong direction”.

But the fault will not be entirely Mr Kerry's. Oregon is as much libertarian as it is liberal, and proudly beyond the control of partisan political machines. Of the 1.9m registered voters, almost 800,000 are Democrats, some 700,000 are Republicans—and an impressive 420,000 are independents. Over the years this tripartite electorate has legalised assisted suicide, allowed the use of marijuana for medical purposes and banned semi-automatic guns; but it has also rejected a taxpayer-funded system of universal health care and the labelling of genetically modified foods. Whatever the issue, Oregon can never be taken for granted, all the more so since it is the only state where all voting is by post. With ballots being mailed out on October 15th, some voters will decide immediately, but others will take their time.

Hence the need for both candidates to gain votes wherever they can. In August an enthusiastic crowd of at least 40,000 greeted Mr Kerry at a waterfront rally in Portland. That number, however, may be deceptive: many at the rally were young people who are notoriously apt not to cast their votes (or even register), and who may have turned up to see not so much Mr Kerry as his star supporters, Jon Bon Jovi and Leonardo DiCaprio.

And, though Oregon is the least church-going state in America, there are still plenty of true believers who at the urging of Bush supporters will vote for state measure 36, a ballot initiative to ban homosexual

marriage. According to the Davis, Hibbitts & Midghall survey, 51% of the voters are already in favour of measure 36. Nice news for Mr Bush (whose own August rally in Oregon was a small, closed all-ticket affair). Mr Kerry could be in trouble.

But not enough, says the smart betting, to lose those precious seven electoral-college votes. Tim Hibbitts, reflecting on his company's survey, nonetheless says: “It's still hard for me to script a scenario in which Bush wins Oregon. I think it's still Kerry's race to lose.”

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The economy and the election

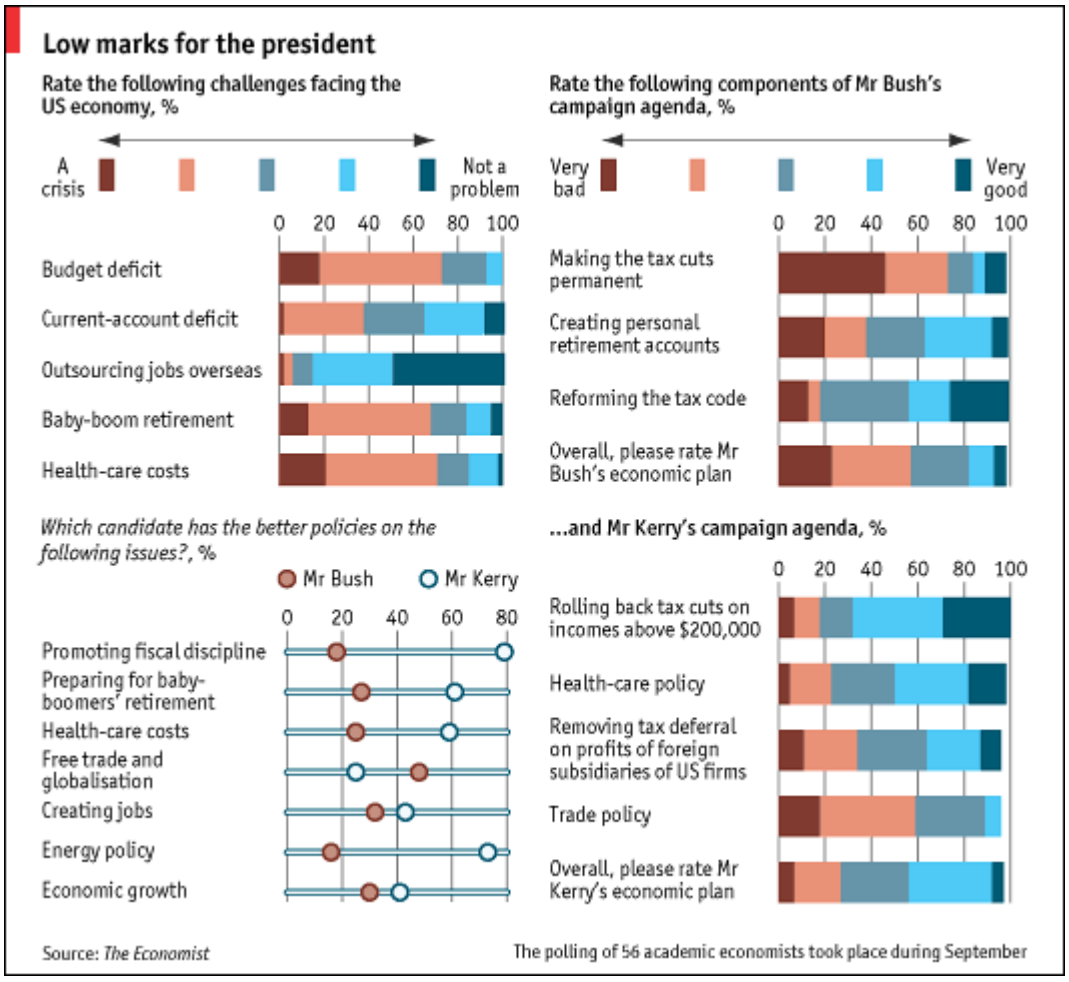
The dismal science bites back

Oct 7th 2004 | WASHINGTON, DC
From The Economist print edition

George Bush comes out worst in our poll of academic economists

WOULD John Kerry or George Bush do a better job stewarding America's economy? Judging by the polls, voters are not sure. Within the past couple of months both candidates have had narrow leads on the issue. Ask economics professors, however, and you get a clearer answer.

In an informal poll of 100 academics, conducted by *The Economist*, Mr Bush's policies win low marks. More than 70% of the 56 professors who responded to our survey rate Mr Bush's first-term economic policies as bad or very bad. Fewer than 20% give positive marks to Mr Bush's second-term economic agenda, and almost six out of ten disapproved. Mr Kerry hardly got rave reviews either, but his economic plan still fared better than the president's did. In all, four out of ten professors rated Mr Kerry's economic plan as good or very good, but 27% gave it negative scores. (The complete numbers are available at www.economist.com/economistspoll.)



Are our economists partisans? We chose their names, at random, from among the referees of the *American Economic Review*, one of the profession's more prestigious publications. Conservatives often moan that university professors are all left-wingers. Though most of our professors claim they are not interested in working in Washington, 80% of those who would accept a policy job would prefer to work for Mr Kerry. However, even if you allow for some partisanship, the results are fairly striking.

A third of the economists reckon the economy is in good or very good shape; about half give a neutral response, and one in five deems the economy to be weak. They are almost equally split about how much responsibility the Bush administration deserves for the state of today's economy. Just over a third assign some or all credit or blame to the president; another third think he has had little or nothing to do with it.

Despite their diverse assessments of today's economy, the professors are overwhelmingly critical of the central plank of Mr Bush's economic policy—tax cuts. More than seven out of ten respondents say the Bush administration's tax cuts were either a bad or a very bad idea, and a similar proportion disapproves of Mr Bush's plans to make his tax cuts permanent. By contrast, Mr Kerry's plan to roll back the tax cuts for people with incomes over $200,000 wins the support of seven in ten of them. (This poll was taken before October 4th, when Mr Bush signed into law his fourth tax cut, which extended several popular components of earlier tax cuts that were due to expire at the end of this year, including the child tax credit.)

The broad condemnation of tax cuts seems to be linked to the professors' worries about America's fiscal health and the looming retirement of the baby-boom generation. Although Americans overall seem relatively unconcerned about the budget deficit, a large majority of the economists rate it as a serious problem for the economy, with almost one in five describing it as a crisis. And they back Mr Kerry by a large margin (79% to 18%) to do more to promote fiscal discipline than Mr Bush. In contrast, the boffins seemed much less concerned by the current-account deficit; only one respondent called it a crisis, and close to 20% deemed it either a small problem or no problem at all.

Health care also seems to be an issue that pushed our economists towards Mr Kerry. More than 70% of the academics reckoned health-care costs were a serious problem for the economy—and they preferred Mr Kerry's plans to control those costs by a margin of 59% to 25% (with the rest ducking the question).

There was some good news for Mr Bush on tax reform. More than 40% of the academics hail his plan to simplify the tax code as a good or very good idea—twice as many as think it bad or very bad. Mr Kerry's main tax-reform proposal—ending the ability of foreign subsidiaries of American firms to defer taxes on their profits—was less well received. Around a third of the professors thought that was a good or very good idea, a third were neutral, and a third thought it was a bad idea.

On entitlement reform, the academics' opinions are harder to interpret. They are evenly split on the merits of Mr Bush's proposal to reform Social Security by creating personal retirement accounts: 36% think it is a good or very good idea, 38% a bad or very bad idea. Oddly, most of them think Mr Kerry offers better plans for dealing with the baby-boomers' retirement, even though he has not actually made any concrete proposals for entitlement reform.

One area where the economists clearly favour Mr Bush is trade. Mr Kerry's ranting about outsourcing has irritated economists: a huge majority dismiss outsourcing as either a small or non-existent problem, and almost 60% give Mr Kerry's trade policy a bad or very bad rating. Although they are plainly not wild about Mr Bush's record on trade, they back him by a margin of almost two-to-one to do more to help free trade and globalisation than Mr Kerry would.

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Lexington

George the compassionate

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A familiar phrase could be the sleeper issue in this year's presidential election

FEW political slogans have had such a chequered career as "compassionate conservatism". Four years ago, George Bush based his entire campaign on it. Then he dropped it in the wake of the September 11th attacks. Now it may be due for a second incarnation. Don't be surprised to see Mr Bush talking almost as much about compassion as about terrorism as the TV debates turn to domestic policy. And don't be surprised to see him squeezing some vital votes out of the slogan.

The first signs that compassion was making a comeback came at the Republican National Convention. The speakers faithfully wove the word into their discussion of everything from education to foreign policy. Compassion even got an entire day to itself, with the delegates waving placards proclaiming themselves "people of compassion".

This year's version of compassionate conservatism is rather different from the 2000 model. Four years ago, Mr Bush tied the idea to "faith-based" initiatives (which were supposed to replace clumsy welfare bureaucracies with religious charities). This year he is talking about an activist government. He is campaigning on a number of policies that are supposed to put the state on the side of the people, from building more community health centres to updating job-training programmes. In 2000 Mr Bush used compassionate conservatism to distinguish himself from the scowling conservatism of his party's congressional wing; now he is trying to prove that there is more to his administration than fighting terrorists abroad and cutting taxes at home.

All of which ought to make compassionate conservatism a tough sell. After all, the administration has devoted the bulk of its energy to terrorism and tax cuts. But look at the opinion polls and you discover that compassion is seeping through. Although Democrats generally do much better than Republicans on the subject, Mr Bush is holding his own this time. A Pew poll taken just after the first presidential debate found that John Kerry had only a minuscule lead over Mr Bush on the question of which leader "cares about people like you" (43% to 41%). A Zogby poll found Mr Bush with a significant lead on the question of who would stop and help you if your car broke down (40% to 32%). Even on education—one of the most Democratic and "compassionate" issues—some polls have shown Mr Bush ahead.

The Republicans' success in closing the compassion gap is partly a matter of personality. Mr Bush has a Clintonian ability to feel people's pain. Mr Kerry is allergic to displaying his emotions in public. The Republicans are using Mr Bush's heart-on-the-sleeve personality to fend off the idea that he "rushed to war" in Iraq. In her convention speech Laura Bush said, "I've seen tears as he has hugged families who've lost loved ones." Her husband's best moment in the first presidential debate came when he talked about comforting the widow of a man killed in Iraq ("We prayed and teared up and laughed some").

But the success is also a matter of relentless work over the past four years. Mr Bush's education policy, particularly the huge, mawkishly named No Child Left Behind Act, was designed to prove two things. The first is that the Republicans care just as much about the achievement gap between minorities and the rest of the population. The second is that they are capable of using "tough love" (testing and accountability) to close that gap. The Democrats offer nothing but excuses for failure ("the soft bigotry of low expectations"), the argument goes; the Republicans, on the other hand, are willing to abandon their long-standing antipathy to government in order to solve a pressing problem.

There are plenty of other examples of “compassionate conservatism” made flesh, from the provision of $15 billion to fight AIDS in Africa to the gargantuan prescription-drugs benefit. But to understand the full importance of the slogan you need to look less at specific policies than at the administration's general style.

Consider how the Bush dynasty has recently put a feminine face on a male-dominated party. Mrs Bush justifies the Afghan war on the ground that it means that little girls can now go to school; she defends tax cuts by producing the example of bustling female entrepreneurs such as Carmella Chaifos (“the only woman to own a tow-truck company in all of Iowa”). Or listen to the way that Mr Bush weaves the language of Christian compassion into most of his speeches.

I feel your pain, now vote for me

There are plenty of grounds for attacking this. How can Mr Bush reconcile his claim to be compassionate with tax cuts for the rich? Or with his association with the likes of Jerry Falwell (who compassionately laid part of the blame for September 11th on homosexuals and feminists)? Mr Kerry is making hay at the moment with the charge that Mr Bush's opposition to stem-cell research is as uncompassionate as it is unscientific. And Mr Bush's dismal performance in the first presidential debate has complicated his job. It is not just that his expression suggested that the real Mr Bush is peevish rather than caring. It is also that he now has to devote as much energy to re-energising his conservative base as he does to reaching out to swing voters.

For all that, compassionate conservatism is still the perfect complement to Mr Bush's strongest suit—the war on terrorism. It serves as both an attractive slogan for swing voters and an effective shield against the charge that he has nothing more to offer at home than tax cuts. This year, women voters seem to be less firmly attached to the Democrats than they usually are: a group which gave Al Gore 11 percentage points more than Mr Bush in 2000 was divided down the middle before this year's first head-on debate. Women have started to return to the Democratic fold since that debate. The result of the 2004 election could well turn on Mr Bush's ability to woo them back with a new dispensation of compassionate conservatism.

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Venezuela's economic policy

What revolution?

Oct 7th 2004 | CARACAS
From The Economist print edition

Reuters

The erratic economic course of Venezuela's populist president

Get article background

NOTHING infuriates Venezuela's mercurial president, Hugo Chávez, quite so much as the suggestion that his “revolutionary” government is nothing of the sort, but rather a re-tread of the reviled, pre-1998 governments he calls the “fourth republic”. Having seen off the threat of a mid-term recall referendum in August, he has promised to press ahead with profound economic changes for the benefit of the country's poor majority. Yet, despite the fears provoked by his close friendship with Cuba's communist president, Fidel Castro, there seems to be little on offer that Venezuelans have not seen before—and to their cost.

As a young army officer, Mr Chávez staged an unsuccessful coup in 1992 against the then-president, Carlos Andrés Pérez. Elected in 1988, Mr Pérez had promised a return to the free-spending prosperity of his first (1974-79) term of office. But the parlous state of the economy forced him into a U-turn. His IMF-inspired adjustment package immediately sparked violent riots, the repression of which cost hundreds of lives. It was the moment, Mr Chávez claims, when “the people awoke” and the revolution began.

This is largely a flight of fancy. Ten years later the people came close to electing Irene Sáez, a right-wing former beauty queen, to the presidency, before opting for the left-wing and more rugged-looking Mr Chávez himself. But no less absurd is the claim that Venezuela's quarter-century-long economic and social decline is the result of “a fetishist free-market discourse”, as the preamble to his economic agenda puts it. The record of the “fourth republic” was as statist as anything in the hemisphere outside Cuba.

It is hard, however, to pin down what the Chávez model consists of, or how it might differ from its predecessors. The president says it is intended to pave the way for a “concrete utopia”, whatever that might be. Even he has admitted that it “still has no name or defined form”. Visible elements include opposition to the United States' proposed hemispheric free-trade area, an emphasis on integration with Latin American and Caribbean neighbours and, domestically, so-called “endogenous development” protected by government subsidies.

Cuban-style socialism, however, it is not. While Mr Castro makes it spitefully difficult to set up even the smallest of micro-enterprises as a private business, his Venezuelan counterpart is cheerfully ploughing funds into the creation of as many small entrepreneurs as possible. There is also to be a network of co-operatives, along with state enterprises in “strategic” sectors of the economy. The domestic private

sector, meanwhile, is assigned the role of producing and importing “non-essential” goods and services. Foreign transnationals are welcome in areas such as oil and gas, although the law gives the state the upper hand.

Flush with petrodollars (like Mr Pérez in the late 1970s), Mr Chávez has already moved to set up a new airline, a telecommunications company and a TV station, all state-owned. As befits a populist, he has thrown fiscal caution to the winds. Despite paying initial lip-service to the need to counteract the debilitating oil-price cycle by saving money during the boom years, he has virtually emptied the fund set up in 1998 for that purpose. Government spending has risen by over 50% this year, and although foreign debt has been kept under control, internal debt has risen alarmingly. Unorthodox methods of raising cash, including a tax on some bank transactions and the extraction of supposed “exchange-rate earnings” from the central bank's reserves, have proliferated. Even so, income falls a long way short of expenditure.

Curiously, Mr Chávez's transitional economic programme, published in 1999 by Jorge Giordani, his planning minister and economic guru, identified most of the above as part of the problem, not the solution. Mr Giordani lambasted “the irresponsible squandering of oil revenues”, “unrealistically ambitious projects”, the creation of “inorganic money on a massive scale to finance public spending”, and “pressure on the autonomous action” of the central bank. He also criticised the tendency for the state to switch plans even before the ink was dry—a fault to which the volatile Mr Chávez is particularly prone.

Mr Giordani, a committed central planner, makes few public statements these days. But some economists detect similarities between the Venezuelan model and previous attempts at a “third way” between capitalism and socialism, like those of China or the former Yugoslavia. And while Mr Chávez is a long way from setting up a one-party state, his opposition to liberal democracy is a matter of record. The government says that it has been introducing an improved, “participatory” version of democracy, with more consultations at the grassroots. But as one commentator dryly remarks, “the participation consists of debating the best way to comply with the instructions received.”

Will the widely-predicted persistence of high oil prices over the two years before the next presidential election allow Mr Chávez to escape the electoral consequences of his own profligacy? Possibly. But Mr Pérez had access to four times the oil revenue per person in the late 1970s, and his anointed successor still lost the 1978 election. The opposition candidate's jeering campaign slogan was, “Where's the money gone?”.

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Tourism in Mexico

Safe haven

Oct 7th 2004 | MEXICO CITY
From The Economist print edition

Why holiday somewhere dangerous?

IT WAS pretty safe to predict that Mexico's tourist industry would be hit by the world downturn in tourism after the terrorist attacks of September 11th 2001. After all, a good bit of its tourist income has traditionally come from Americans nipping over the border for a cheap tequila or ten and staggering back the same morning. Sure enough, with the tightening-up of border controls, there was a 15% drop last year in so-called “border-zone tourists”.

Yet overall, tourism in Mexico is booming as never before. Earlier this year, the government announced a record monthly income from tourism of over $1 billion for March. And figures released last month show that this was no freak. The Caribbean side of Mexico's Yucatán peninsula, the country's main tourist earner, boasted 16% more visitors during the first half of this year than in the same period in 2003.

A deputy minister for tourism, Francisco Madrid, explains that because travel has become scarier since 2001, there is “a tendency throughout the world to have holidays nearer home”. This, of course, applies particularly to Americans. Previously, many were put off Mexico by tales of kidnapping, crazy drivers, polluted water and earthquakes. But by comparison with the rest of the world, Mexico, it seems, is an oasis of tranquillity.

Some of its resorts, such as Cancún, have long been popular with the gringos, especially the rowdy and legless “spring-breakers”. But these days it is working harder to pitch its abundant wealth of Mayan ruins and colonial towns to a more discerning and older tourist market. Four-fifths of Mexico's tourist visitors are now Americans.

The market in cruises, though, is booming more than anything. With 6.6m passengers coming ashore last year, Mexico has become the most popular cruise-ship destination in the world. The Yucatán's ports alone received 1.8m cruise passengers in the first half of this year, 200,000 up on the same period last year.

Here, the “war on terror” has probably been a big factor. Americans account for about 75% of the world cruise-ship market. They now want to sail safely nearer home. And for the ultra-squeamish, arriving by floating hotel allows them to avoid any contact with Mexican airports, cab-drivers, food or worse. Such is the demand that Mexico is busy building new, dedicated ports along its Caribbean coast.

However, the new influx of water-borne tourists has brought controversy too. They spend a lot less money per head in the country than other tourists do. In Mexico as in other Caribbean countries, there have been loud complaints that, with the pollution and ecological disturbance that the ships bring, they should be paying more for the pleasure. Some have demanded that the government levy a tariff on incoming passengers. But mindful of the need to stay competitive with the rest of the Caribbean, it is delaying.

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Corruption in Peru

Cleaner-than-thou

Oct 7th 2004 | LIMA
From The Economist print edition

Peru's president fights off scandal

Get article background

THE gilded reception hall of Lima's presidential palace is usually packed for protocol events. But it was oddly uncrowded this week when Alejandro Toledo, the president, became the first South American leader to ratify his country's signature last year of the UN Convention against Corruption. Mr Toledo has said he will fight corruption “yesterday and today, inside and outside” government. One reason why few people turned up to listen could be Mr Toledo's own recent scandals.

One is a charge that he and his supporters forged signatures to register his party for the 2000 presidential elections. On October 3rd a local news show, “Cuarto Poder” (Fourth Estate), aired a videotape shot six years ago in which Mr Toledo congratulated supporters for collecting and recording signatures. After it was aired, he phoned the show's host, Carlos Espa, and lost his temper with him. Two days later Mr Espa and his team quit after getting lukewarm support from the TV station's owners.

Only the week before, the administration had grudgingly renewed the contracts of three assistant prosecutors and their staff who are investigating corruption under Mr Toledo's predecessor, Alberto Fujimori. The prosecutor's office has launched probes into more than 1,400 people, though its success rate is more modest: 187 arrests and 58 convictions. But ever since the prosecutors decided, some months ago, to take a closer look at Mr Toledo's administration too, he has been criticising them. Even on renewing their contracts last week he couldn't resist a barb, saying Peruvians expected and deserved better results.

That seems unfair. One good result is that large sums plundered from the state coffers are starting to return. So far the prosecutors have repatriated $174m sent abroad by corrupt officials, chief among them Vladimiro Montesinos, Mr Fujimori's former spy chief. Accounts holding another $69m have been frozen.

But there is a lot left to do. Mr Montesinos, already in jail while on trial for several more crimes, is reckoned to have helped siphon away up to $2 billion during the 1990s. Peru is trying to extradite Mr Fujimori himself, who used his Japanese ancestry to gain citizenship from Tokyo after leaving office. Transparency International, a Germany-based anti-corruption group, claims he stole $600m, putting him among the ten most corrupt leaders in recent memory.

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Ecuador's economy

Slick Lucio

Oct 7th 2004 | QUITO
From The Economist print edition

High oil prices may rescue Ecuador's president, but only in the short term

Get article background

CRUDE oil is a great temporary substitute for elbow grease, as Ecuador's leaders have discovered. Since the 1970s oil boom, oil income has allowed many of them to put off essential reforms and pave over other shortcomings. The current president, Lucio Gutiérrez, is no exception. Thanks to record-high oil prices and greater output by private producers, the value of the country's crude exports to August this year was 78% up on the same period in 2003. The state's share of this will more than cover the quarter of government spending projected to come from oil revenues. In fact, there could be as much as $600m left over by year's end, which by law must go to a special fund set up both to buy back part of the country's $15 billion public debt and to pay for some health and education projects.

This is a boon for Mr Gutiérrez, who would be hard pressed to manage a severe deficit on top of his political problems. A former coup leader, he campaigned as a populist, but turned to economic orthodoxy upon taking office in January 2003. That earned him international praise, but cost him his allies among local Indians.

His popularity has dropped to 10%, according to one pollster, from over 60% when he first assumed power. His party controls just five seats in the 100-member Congress, forcing him constantly to broker short-term alliances. His strange bedfellows have ranged from a centre-right former president, León Febrés Cordero, to Abdalá “El Loco” Bucaram, known for his crazy (and corrupt) presidential antics before his flight to Panama in 1997.

But the oil bonanza is smaller than it seems. While oil prices are high and economic-austerity laws limit increases in public spending, there is more or less enough to go around. But because the law also limits how surpluses can be reallocated, next year the government will have to fill an estimated budget gap of close to $500m, probably with more foreign loans.

One reason is that with higher oil prices, the petroleum derivatives that Ecuador imports to make petrol for domestic use are now costlier too. It relies on them, in turn, because of its failure to build more refineries or invite private companies to do so. At Petroecuador, the state oil company, a lack of investment and other problems have cut production by almost 40% over the last decade. Earlier this year Congress turned down a number of reforms that would have opened up the firm to fresh private investment.

Mr Gutiérrez has also been unable to push through reforms that would reduce the country's oil dependence. They include raising more taxes and trimming waste in the state-run electricity and telecommunications sectors. With municipal elections due this month, legislators will be loth to take these unpopular steps. High oil prices will also increase the pressure on Mr Gutiérrez to spread around what is perceived as a windfall—even though most oil income is already tied up. Calls to use the oil fund for populist projects instead of debt buyback will intensify. He will have to continue to dole out other treats such as government posts. Worse, though, would be if oil prices were to defy expectations and fall steeply in the short term. It would take more than just elbow grease to get Mr Gutiérrez out of that fix.

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Canada's viceroy

Madame Canada

Oct 7th 2004 | OTTAWA
From The Economist print edition

A much-loved governor-general keeps things steady

THE queen of Canada lives across the Atlantic and visits her realm infrequently. But her local deputy, Adrienne Clarkson, the governor-general, could soon enjoy an unusual addition to her normally ceremonial role: to make sure the place has a government. This week, after Ms (or as the Canadians call her, “Madame”) Clarkson had delivered the government's policy-setting “throne speech” at the state opening of parliament, both the Conservative and the Bloc Québécois opposition parties proposed amendments to it. With only 135 out of the 308 seats in the lower house, Paul Martin's Liberal government could fall if his party rejects the amendments and the opposition then unites to vote the speech down. Ms Clarkson will then have to decide whether to dissolve parliament, leading to an election, or ask the Conservatives, who have 99 seats, to form a government.

In fact, the opposition will probably not push things that far—for now. But Mr Martin, mindful of the need for an experienced governor-general in a constitutional crisis, is taking no chances. Last week, with the queen's consent, he reappointed Ms Clarkson, whose term was due to expire on October 7th, for an unusual sixth year.

A Hong Kong-born wartime immigrant—quite unlike the string of British noblemen and veteran Canadian politicians who preceded her—Ms Clarkson is popular, and not just among struggling politicians. The announcement of the extension of her term in office praised her for having “reached out to Canadians in communities throughout the country”.

She and her husband, John Ralston Saul, have set a hectic pace in travel to Canadian outposts. Her Christmas card showed the pair surrounded by smiling Inuit children; they spent new year with Canadian troops in Afghanistan; and two days after the throne speech she left for a trip to northern British Columbia, to visit settlements of the Nishga'a tribe. Nor does she shy away from tough encounters closer to home. Last month the couple went walkabout on the streets of Vancouver to talk to heroin addicts, where a man (perhaps in need of a fix) jeered at Mr Saul, a best-selling novelist and philosopher, for “writing bad books”.

Halfway through her five-year term she was earning extravagant praise from journalists for, in the words of one magazine, bringing “new purpose and pizzazz to the office”. That has included holding televised town-hall meetings about the problems of mushrooming cities, youth forums on community-building in small towns, and cultural visits abroad with Canadian artists and writers.

But a year ago she ran into fierce criticism for the C$5.3m ($4m) price of her three-week trip to Russia, Finland and Iceland with a large group of Canadian experts to discuss scientific and environmental issues common to countries around the North Pole. The government cancelled another planned visit on the same theme. She refused to appear before a parliamentary committee reviewing her budget this year—though one friendly columnist argued that, at an annual C$1.30 for each Canadian, she was not such a bad deal. And the throne speech contained a strong focus on her beloved Arctic and the welfare of Canada's northern peoples. That proves that she has a good deal more influence on government policy than the lady who is nominally her boss.

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India

Cohabiting, for now

Oct 7th 2004 | DELHI
From The Economist print edition

AP

How well is Mahmohan Singh's new coalition government doing?

Get article background

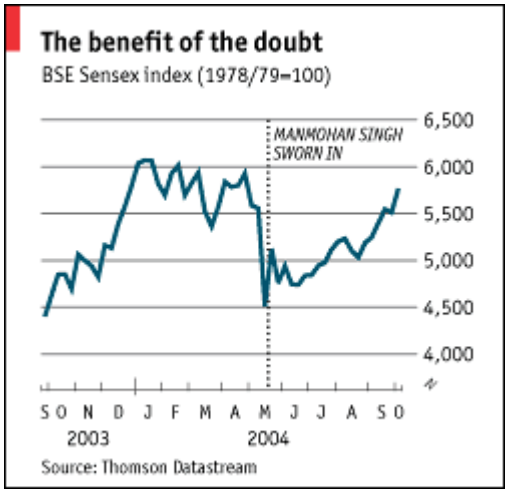
THE calendar of the world's biggest democracy is merciless. Just four months after finding itself—to universal astonishment, including its own—leading a national coalition government, India's Congress party faces another big election. On October 13th, Maharashtra, the country's richest and second most-populous state, goes to the polls. Congress officials are keen to portray the close-fought contest, where a state-level Congress-led coalition risks defeat, as a local one. Yet they also hope that the popularity of their leader, Sonia Gandhi, and of Manmohan Singh, in whose favour she renounced the prime minister's office, will win votes.

The personal standing of Mrs Gandhi and Mr Singh has not, however, afforded the government a honeymoon. Instead, from the day it took office it was beset by doubts: about how the two would share power and manage a disparate coalition; and about whether policymaking would be crippled by the need to retain the support, from outside the formal coalition, of the two Communist parties on which it relies for a parliamentary majority.

Although the stockmarket was quick to overcome its initial panic at the Communists' pivotal role (see chart), this last question has nagged most tenaciously. Far from behaving like a faithful poodle, grateful for a basket near the seat of power, the Communists have snapped terrier-like at the government's heels. Sitaram Yechury, of the bigger of the two Communist parties, even gave warning that the left's bite might be “worse than its bark”. He says that the government, not the left, has picked all the fights. But all the squabbles revolve around the left's objections to the economic reforms with which Mr Singh and his team are identified. If they are heeded, policy may well be paralysed.

The contentious issues are more than symbolic. They include privatising airports, raising the cap on foreign investment in the insurance and telecommunications industries and cutting the subsidised interest rates paid to pensioners through a provident fund. This week a new tiff blew up, over the government's intention to abolish a big irritant to potential foreign investors: a rule that gives Indian firms a veto over their foreign joint-venture

partners' expansion plans.



The most perplexing storm, however, has been in the teacup of the Planning Commission. It wanted to appoint a few representatives of non-Indian bodies, like the World Bank and McKinsey, a consultancy, to consultative committees assessing the present five-year plan. The left snapped angrily. Mr Yechury says the dispute was not about ideology but the loss of sovereignty implied in inviting foreign entities on to government committees.

Senior Congress officials, however, see the complaints as an attempt by the left to appease the anti-reform instincts of many Communist party workers. A particular target is Montek Ahluwalia, the commission's boss. More than anyone, Mr Ahluwalia, who returned from a senior job at the IMF to join the government, is identified with economic liberalisation. Some Congress officials now question his political wisdom: why take on the left in a pointless battle? The end he sought has now been achieved simply by dissolving the committees, leaving the commission free to talk to everybody.

Congress leaders, however, insist that the Communists are still all bark and no bite. They point to the gulf between the ideologues in Delhi and the reformist Communist government in West Bengal, which mounts roadshows to attract foreign investment, and is closing down loss-making state enterprises. Jairam Ramesh, Congress's chief economic adviser, argues that “when push comes to shove”, the left will not block some of the biggest planned reforms. Indeed, West Bengal has taken a lead in pushing for one of them: the introduction, at the fourth attempt, of a nationwide value-added tax next April.

This is the first national coalition government Congress has led, and it is not surprising there are teething troubles, especially since Congress is “cohabiting” with parties that are its biggest rivals in some states. The Communists and some coalition members need to pander to their constituencies with populist anti-reform rhetoric. But those same constituencies would be aghast if they were to bring about the fall of the government and the restoration of one led by the main opposition Bharatiya Janata Party (BJP).

For this reason Kamal Nath, the commerce minister, claims that there could be no “better-bonded” coalition. It is true it is stronger than it sometimes looks, and stockmarket investors seem to have decided it will be able to deliver decisive policy, including some economic reform. But it has yet to prove that it has the strength to deliver the radical policies and reforms it has promised, as well as merely survive.

At least the division of labour between Mrs Gandhi and Mr Singh—she does the politics while he handles policy—seems to work. There may have been some quiet glee among those close to Mrs Gandhi at the discomfiture of Mr Ahluwalia, one of the prime minister's closest advisers. But, as yet, factional feuding is low-key.

Mr Ramesh argues that the Maharashtra election matters less for Congress than it does for the BJP. Victory would be a big boost, since the state capital Mumbai is India's financial centre and power there gives a fund-raising edge, but Congress could dismiss defeat as the usual anti-incumbent backlash. The BJP, however, is split by a tussle for the succession to its septuagenarian leaders, Atal Behari Vajpayee and L.K. Advani. It needs to win to stem a rapid slide in its fortunes; but victory will not end its internal struggles.

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India's north-east

The terror spreads

Oct 7th 2004 | DELHI
From The Economist print edition

Neighbouring states can help, but not stop it

Get article background

BESIDES the constant sniping about economic policy, India's Congress-led government also faces criticism for its handling of a worsening terrorist problem in the country's north-east. Between October 2nd and October 5th, more than 70 people were killed in a series of explosions and gun attacks on towns, village markets and a station.

These were blamed on two of the dozens of secessionist outfits in the seven states of the region, home to more than 200 ethnic groups. One, the United Liberation Front of Asom (ULFA), wants independence for the state of Assam. The other, the National Democratic Front of Bodoland, is fighting a war within a war for a homeland for the Bodo people within Assam.

India claimed a breakthrough in its war against these groups when, last December, the army in neighbouring Bhutan overran camps they used as refuges there. But that setback seems only to have hardened the terrorists' resolve.

India accuses other neighbours—Myanmar and especially Bangladesh—of harbouring terrorists, and wants them to follow Bhutan's example. Some accuse Bangladesh of deliberately fuelling the conflicts. There seems little doubt that some ULFA leaders go there, though reports of 194 rebel camps on its territory are disputed.

Some of the worst of the recent violence was in not Assam but Nagaland. There the biggest secessionist group is observing a ceasefire in its own 50-year campaign for independence, and has offered a reward for information about the perpetrators of the latest attacks.

Yet another conflict simmers in neighbouring Manipur, part of which is claimed by the Nagas, but where many separatist groups have united to protest against alleged human-rights abuses by Indian forces. The charge against the Congress-led government from the Communist parties is that its failure to tackle the crisis in Manipur has encouraged extremist elements elsewhere.

They are right that the region's conflicts are too many, too complex and too overlapping to be settled by foreign military action alone. But, apparently bereft of political ideas, a panicked government is rushing fresh troops to the region. It risks adding a new twist to the spiral of violence.

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Nuclear proliferation

A game for all to play

Oct 7th 2004
From The Economist print edition

A row over Indian nuclear help to Iran

MIGHT Iran secretly have succeeded in winning the co-operation of both of those arch nuclear rivals, India and Pakistan? The father of Pakistan's bomb, Abdul Qadeer Khan, admitted earlier this year that he sold uranium enrichment secrets to Iran, Libya (which says it got a bomb design thrown in) and North Korea. Now the United States has fingered two senior Indian scientists, Y.S.R. Prasad and C. Surendar, past heads successively of India's nuclear-power industry, for helping Iran with illicit weapons programmes. Awkwardly, the news comes just as America had set aside restrictions on co-operating with India in space technology and civilian nuclear power.

The names of the two scientists, though not the Nuclear Power Corporation of India which they ran, turned up last week on a list that included companies from Spain, Ukraine, Russia, China and North Korea. All stand accused of assisting Iran in building either missiles (this week Iran claimed its Shahab-3 missile could now fly 2,000km, or 1,250 miles, putting not only Israel but parts of Europe in range) or weapons of mass destruction.

Both men flatly deny any wrongdoing. Mr Surendar says he has never set foot in Iran. Mr Prasad admits that, since his retirement in 2000, he has helped Iran with safety advice at the Bushehr nuclear-power plant that Russia is completing under International Atomic Energy Agency (IAEA) safeguards.

What could be wrong with that? The Indian government has demanded that the two men's names be dropped from the sanctions list. Yet when Mr Prasad's name was first linked to Iran last year, the government put it about, improbably given its strict rules governing foreign visits of this kind, that he had gone there without asking approval.

Henry Sokolski, director of the Non-Proliferation Policy Education Centre, a think-tank, says America's concerns may relate to a process Indian nuclear scientists invented to extract tritium, used to boost the explosive power of nuclear bombs, from heavy water used in some of the country's power reactors. The work was done, supposedly, in order to improve safety. The result, however, is a growing stockpile of cheaply produced tritium.

Iran also plans to build a heavy-water reactor, despite requests from the IAEA to halt the project, which would be better suited to producing plutonium for bombs than electricity. Might Iran be hoping to exploit its planned reactor to produce its own tritium too?

It has long been keen to work with India on nuclear projects, showing interest in India's plans for a nuclear-powered submarine. Indian firms have been ticked off by America for other sorts of weapons co-operation with Iran. But India has generally been careful to avoid sensitive nuclear areas. In recent years, it has not wanted to upset improving ties with America. However, India's new Congress-led government is already proving pricklier. The row over the nuclear scientists could yet help sour what both hoped could be an emerging strategic partnership.

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Indonesia

Guessing game

Oct 7th 2004 | JAKARTA
From The Economist print edition

An awkward transition

Reuters

Yudhoyono's patient supporters

AFTER the euphoria of its first presidential election, Indonesia was this week in an odd and unexpected period of political limbo. On October 4th, the electoral commission announced the official result, confirming a 21% margin of victory to the challenger, Susilo Bambang Yudhoyono, that the early projections suggested. The tiny handful of contested returns are far too few to affect the final outcome.

That triggered the traditional stream of congratulatory messages from the world's leaders. But Mr Yudhoyono declined immediately to declare victory or name any of his cabinet. He said he was waiting for President Megawati Sukarnoputri to concede, something she was taking her time doing. Nothing has been divulged by anyone in her inner circle, so Indonesians have been left guessing as to her motivation for acting as she has. Perhaps she was waiting, as her vice-president suggested, for a miracle. Or perhaps she was refusing to face reality—despite tearfully telling the nation in an official speech on October 5th that everyone should accept the results.

Not wanting to upset the Megawati loyalists, Mr Yudhoyono was spending his unexpected spare time (the inauguration in not due until October 20th) being examined on his doctoral thesis in rural economics and visiting East Java to pay respects to his mother and the grave of the nation's founding president, Sukarno.

Predicting his government's composition has become everyone else's favourite way of filling in the interval. Speculation is rampant but few leaks and little consensus have emerged. Mr Yudhoyono has repeatedly said his priority is job creation, so the economic portfolios will be particularly closely watched. The current finance minister, Boediono, whose fiscal prudence is widely respected, is in the running to keep his job—a fact that has helped lift the Jakarta stockmarket more than 6% in the past week.

Also mentioned, though, are Irzan Tandjung, a market-friendly economist who is also a senior cadre of Mr Yudhoyono's fledgling Democratic Party, and Joyo Winoto, the executive director of the Brighten Institute, an economic think-tank that has been advising the retired general.

Many eyes will be on the new attorney-general, a post regarded as toxic considering the rampant corruption within the legal system. Mr Yudhoyono's aides say Marsillam Simandjuntak, a doctor who was cabinet secretary during the Abdurrahman Wahid presidency, is their preferred choice. If selected, his brusque style and reputation for incorruptibility would make life uncomfortable for the thousands of departmental officials who, according to the national audit agency last month, have skimmed off tens of millions of dollars for themselves in recent years.

Mr Yudhoyono's critics regularly voice concern about the number of ex-military men surrounding the president-elect. Even Agus Widjoyo, a retired lieutenant-general considered a reformer and touted for a security portfolio, has his detractors. It is in this field that Mr Yudhoyono has the most to prove.

A further danger sign is that the president-elect has been emitting mixed messages. He has flip-flopped between saying that the government would be appointed entirely on merit—and that 40% of appointees

will be political. He has also said that the police and military chiefs will keep their jobs and that there will be at least four women in the cabinet.

One probable innovation reflects Mr Yudhoyono's desire to copy from the White House, by creating economic and security councils that will act as both advisory bodies and policy-generating forums. At the moment, Indonesia's president has almost no personal staff at all.

Mr Yudhoyono has won praise by insisting that all ministers sign contracts to which they will regularly be held accountable. In the absence of any more definitive indicators, this is perhaps a sign that the new president may prove to be the new broom the scores of millions of Indonesians who voted for him are expecting.

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China

Help wanted

Oct 7th 2004 | DONGGUAN
From The Economist print edition

Amazingly, China has labour shortages

Get article background

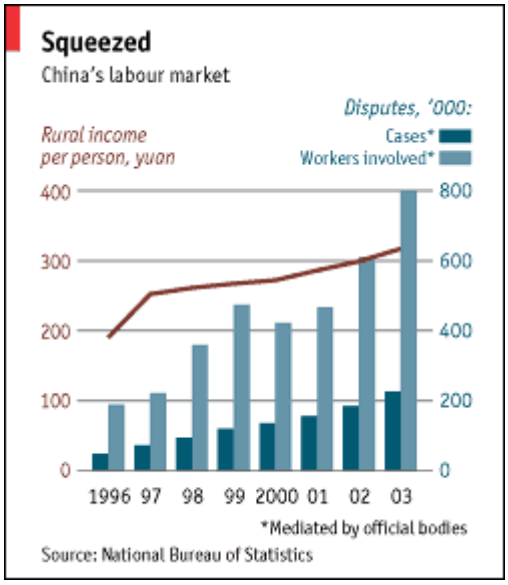
OUTSIDE the factory complex of Chenming Industrial Corporation in the municipality of Dongguan, a red banner proclaims that “a large number” of workers are needed. A few years ago, such display would have been unnecessary. Unemployed migrants from the countryside would swarm to the gates of the thousands of labour-intensive, foreign-invested factories in Dongguan, an ugly sprawl that is one of the main engines of China's export boom. Employers revelled in seemingly limitless cheap labour.

Not any more. “We're lucky these days to fill one of every two jobs available,” says Juei Chen Wong from Taiwan, who runs an electric-wire factory in Dongguan. Another Taiwanese manager recalls having three applicants for every job in the late 1990s. Now there's only one for each post, he says. Officials say the municipality is short of around 270,000 workers, a worrying phenomenon for an area that produces about a fifth of the exports of Guangdong province, which itself accounts for nearly a third of China's total exports. The province's Pearl River delta has about 19m migrant labourers, but is short of about 2m more, according to a report last month by the Ministry of Labour and Social Security.

Although Guangdong's labour shortage appears the most widespread and acute, other areas have reported similar problems. The city of Quanzhou in the province of Fujian to the north was among the first to complain, saying it had a shortfall of around 200,000 workers last year. The shortage of unskilled labour is now particularly evident in the belt of manufacturing cities along the coast from Guangdong up through to Zhejiang Province, south of Shanghai. The number of labour disputes has risen sharply (see chart), in part a sign of a tight labour market. On October 6th, about 3,000 workers from a factory in Shenzhen, Guangdong's most prosperous city, took to the streets to demand higher wages.

How is this possible in a country that has around 150m people in the countryside with little or nothing to do? One cause appears to be the differing rates at which hidden barriers to migration are being dismantled in different parts of China. Although there has been a huge influx of labour from rural areas into the cities in recent times (about 100m as of last year), these barriers have prevented many of the migrants from settling down permanently with their families and becoming assimilated into urban life.

One of the biggest barriers has been the lack of well-enforced social security and health-care provisions. Working conditions often exact a heavy physical toll. A survey in Guangdong in 2002 found that nearly 10% of migrant workers had suffered chemical poisoning and nearly a quarter had been injured in the workplace. The prohibitive expense of urban health care for those not registered as permanent urban residents forces migrant labourers to return to their villages.



Guangdong's notoriety as the epicentre of last year's epidemic of the SARS respiratory disease and the scene of another mini-outbreak a few months later may have fuelled concerns about medical bills. And there may now be a greater temptation to stay on the farm because of an unusually rapid growth of rural incomes in recent months, caused by rising food prices. Incomes in the first half of the year rose by more than 16%.

In the meantime, some areas in the Yangtze River delta have

moved faster than the Pearl River delta to improve conditions for migrants. Minimum wages in the Yangtze region are generally higher. Zhong Dajun, head of an independent research institute in Beijing, wrote last month that the Yangtze delta was now more attractive to migrants thanks to measures aimed at ensuring they receive accident and health insurance and other benefits. Demand for labour has been pushed up by a huge influx of foreign investment ($53.5 billion last year), as well as a surge of domestic investment.

In Dongguan, factory managers face the choice of increasing wages (which they have hardly adjusted for years), shifting to less labour-intensive production or moving to areas where cheap labour is more abundant. In the last three or four years, some Taiwanese-owned enterprises have moved to Vietnam, where labour costs are lower, or to the Yangtze delta, where they have better access to domestic markets and the skilled labour needed for higher-technology operations. The myth of China's infinitely cheap, and as some factory owners hoped, infinitely exploitable labour is beginning to crumble.

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Cambodia

Bringing the Khmers Rouges to justice

Oct 7th 2004 | PHNOM PENH
From The Economist print edition

Cambodia's parliament approves plans for a special war-crimes tribunal

Get article background

TWENTY-FIVE years after the murderous Pol Pot regime was toppled, the long battle to bring his henchmen to justice appears almost won. On October 4th, the Cambodian parliament unanimously ratified an agreement with the UN to set up a special tribunal in Phnom Penh to try the surviving leaders of the Khmers Rouges. During their brutal three-year rule at the end of the 1970s, the Khmers Rouges were responsible for the death of some 1.7m Cambodians, about a quarter of the population. A tribunal was first proposed more than 20 years ago. But it became so mired in legal and political controversy that many Cambodians gave up hope of ever seeing their tormentors brought to trial.

Despite the death of several key Khmers Rouges figures, including Pol Pot himself in 1998, Cambodians now hope that as many as ten surviving leaders will soon be brought before a special “mixed” tribunal of Cambodian and international judges. Although local judges will be in a majority, no majority decision will be able to be taken without the vote of at least one international judge.

Only two of the probable defendants, Ta Mok and Kang Kek Ieu (also known as Duch), are at present in jail. The fact that other leaders are still living out their retirement peacefully in Cambodia has fuelled suspicion that they are protected by government amnesties and will never be put on trial.

Only Pol Pot's foreign minister, Ieng Sary, who defected to the government side in 1996, has received a formal royal pardon—for a conviction of genocide in 1979 by the People's Tribunal, set up during Vietnamese occupation. Under the provisions of a 2001 law, no Khmers Rouges leader will be exempt from prosecution. So even if Ieng Sary is not charged with genocide, he could be indicted for other crimes, including crimes against humanity.

But there are worries about a possible threat to the tribunal from China, Pol Pot's main supporter. The Hun Sen government, once China's bitter enemy, is today one of its most favoured friends and a recipient of substantial Chinese aid. Western diplomats say that Hun Sen is now under great pressure from Beijing to delay or even derail the tribunal.

A big question-mark also hangs over funding. The tribunal's estimated budget of $57m over three years is supposed to be met from voluntary contributions by UN member states. So far, these have not been forthcoming. The UN is to launch an appeal for greater generosity.

But the ultimate enemy of justice is now time and the prospect of ageing suspects either joining Pol Pot in the grave or attempting to escape prosecution on medical grounds.

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Sudan

Waiting for the killers to be curbed

Oct 7th 2004
From The Economist print edition

Reuters

Britain's prime minister, Tony Blair, says the world is taking atrocities in Sudan seriously. But is it?

LAST month, Sudan's government made “no progress” in stopping ethnic cleansing in the western region of Darfur. It failed to curb attacks on black African civilians by mounted Arab militias known as *janjaweed*, or to prosecute the perpetrators. It also made no progress towards implementing a ceasefire with rebels in Darfur.

That was the damning judgment of the UN's secretary-general, Kofi Annan, on October 4th. Since Sudan's government has been behind the ethnic cleansing in Darfur all along, arming the *janjaweed* and softening up villages with barrel-bombs before the *janjaweed* ravage them, his verdict came as no surprise. But since the government in Khartoum was obliged, under an earlier UN Security Council resolution, to show progress on all these fronts or face sanctions, one might have expected sanctions to be applied.

The UN does not like to be rushed, however. Threats of an oil embargo, which would hurt, appear to have been quietly shelved. After a Security Council meeting on October 5th, John Danforth, America's point man on Sudan, said that the focus was now on getting more troops from the African Union (AU) into Darfur, to monitor a widely-ignored ceasefire.

Rwanda and Nigeria have so far provided 300 soldiers, out of a promised force of 3,500. The AU wants these troops to protect civilians. The Sudanese regime would prefer that they only observe. No matter what their mandate, there are not nearly enough of them to guard the estimated 1.5m Darfuris who have been driven from their homes by the *janjaweed*, nor to pacify an area the size of France.

The Sudanese government, emboldened by the UN's vacillation, has sent out mixed signals. Majzoub al-Khalifa, the regime's chief negotiator at talks with Darfuri rebels, said on October 4th that there was no chance of Darfur being granted autonomy. He said he was not sure if it was even worth talking to the rebels, whom he accused of backing a coup attempt in Khartoum last month. But two days later, Sudan's foreign minister, Mustafa Osman Ismail, said he would not rule out negotiation. Mr al-Khalifa merely suggested a fund to ease Darfur's poverty, but after decades of neglect and 18 months of state-directed terror, Darfuris are not holding their breath.

On October 6th, Britain's prime minister, Tony Blair, dropped into Khartoum. He did not stay long; he was en route for a friendly summit with some of Africa's less despotic leaders, who gathered this week in Ethiopia to discuss ways of reviving the continent's fortunes under the auspices of Mr Blair's Commission for Africa. While in Sudan, Mr Blair sat down with President Omar al-Bashir and berated him for the carnage in Darfur.

Darfuri politicians say Mr Blair has a particular duty to help their cause, because it was Britain that first annexed Darfur to Sudan in 1916. Few Britons ever settled in Sudan, perhaps because they found the climate less congenial than, for example, South Africa's. But they paved the way for Darfuri subjugation, Darfuris argue, by building schools in and around Khartoum, but ignoring more remote areas, such as Darfur. When the British left, Sudan's better-educated Arab tribes took control.

Mr Blair said his visit to Sudan was a sign of “the seriousness with which we take the situation”. That remains to be seen. He listed five steps that the regime should take to end the crisis, all of them sensible—allowing more AU troops into the country, abiding by UN resolutions, and so on—but none of them new.

If Mr Bashir believes that outsiders will indeed punish his regime if it continues to rape Darfur, he will probably call off his footsoldiers. The lesson of the past 15 years is that “when the government has been the target of serious pressure with a specific objective, it has modified its behaviour,” said the International Crisis Group (ICG), a pressure group, this week. If Khartoum co-operates with the UN, a settlement for the whole country could be secured by the end the year, the ICG predicted. If not, Sudan could implode.

The prospect of Sudan becoming like anarchic Somalia—only four times bigger—is far from remote. A war between the Muslim north and the Christian and pagan south, which has claimed 2m lives in the past two decades, looked set to end after a pact in June laid the framework for power-sharing and an eventual referendum on southern independence.

But hardliners in the south now think the government is weakened by Darfur, and are tempted to go back to war. Northern hardliners, meanwhile, think Darfur proves that concessions merely encourage fresh rebellion, so the government should tough it out until the West's attention wanders—and then crush all the insurgents.

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South Africa

Stung by a Scorpion

Oct 7th 2004 | JOHANNESBURG
From The Economist print edition

A corruption trial could affect South Africa's presidential succession

Get article background

IS JACOB ZUMA, South Africa's deputy president, corrupt? Next week his personal financial adviser, Schabir Shaik, goes on trial for allegedly soliciting and paying bribes and for fraud, mostly to benefit his boss. State prosecutors say that between 1995 and 2002 Mr Shaik illicitly passed over 1.2m rand ($185,000 now; more then) to Mr Zuma and sought a “protection fee” of 500,000 rand on his behalf from a French arms firm. Both men and the firm, Thint Holdings (then called Thales), deny the charges.

Mr Zuma is in effect being tried by proxy after plans to prosecute him directly were dropped last year. The Scorpions, South Africa's FBI, said a “prima facie case” existed against him, then backed down under political pressure. But putting Mr Shaik in the dock is almost the same thing: prosecutors expect to show that Mr Zuma took and acted on bribes. They say that in 2001 he tried to stop an inquiry into graft concerning a controversial arms deal involving Thint. They will present a 250-page report of allegations against him, compiled by an auditing firm, KPMG.

If Mr Shaik were convicted, Mr Zuma's political career could be over. He was seen as the likely successor to President Thabo Mbeki, who is serving his final term. So far Mr Mbeki backs his deputy, but that could change if Mr Zuma were to be tarred.

The president knows voters are fed up with corruption. Last week in Mpumalanga province he faced placard-waving protesters who said that local councillors steal funds. The home-affairs ministry is running a “check your marital status” campaign after nearly 1,000 women found that corrupt officials had married them, unknowingly, to illegal immigrants. The Scorpions are investigating 135 MPs, including the National Assembly's speaker, Baleka Mbete, after allegations that they misused travel funds worth 17m rand. Stories of crooked police and immigration officials fill local newspapers.

If Mr Zuma loses, who takes his place? Finding a successor to Mr Mbeki, who is untainted by corruption, should be a priority. South Africa is still seen as less dirty than most of Africa or the rich world, on a par with, say, Greece or South Korea. But standards are slipping.

Several rivals are quietly lining up for the job, including Mr Zuma's ex-wife, the foreign minister, Nkosazana Dlamini-Zuma. Mr Mbeki favours her and likes to promote women, though she is not especially popular. Trevor Manuel, the gruff finance minister, is liked and respected, though many black members of the ruling African National Congress (ANC) might oppose having a leader who is of mixed race (“Coloured”, in the less politically-correct lingo that most South Africans still use). Another candidate may well emerge from a group of politically-connected businessmen, such as Cyril Ramaphosa, who lost a battle with Mr Mbeki to become deputy president to Nelson Mandela in 1994.

An all-out scrap between factions could strain the ANC. But they must wait to see exactly what happens to Mr Zuma. If he were somehow to emerge unscathed from the trial, he would be a big stride closer to the presidency himself.

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Homosexuality in Africa

Gay, but in mourning

Oct 7th 2004
From The Economist print edition

Tolerance is still a distant prospect

“WE LIVE in fear,” said FannyAnn Eddy, Sierra Leone's best-known lesbian, a few months before she was murdered. Her body was found last week. She had been working late at the country's only gay-rights group. She was alone when one or more assailants broke in, raped her, stabbed her head and broke her neck.

Homosexuality is illegal in Sierra Leone, but the law is vague and more likely to be “enforced” by vigilantes than the police. The country has just emerged from civil war, so few Sierra Leoneans think gay issues pressing. Those who do consider the subject find it distasteful. Given the “sizzling” beauty of Sierra Leonean women, “who would want to be a gay in Sierra Leone?” asks Kingsley Linton, a local journalist. He adds, with relief, that gays in his country “know they have to do their thing in the dark”.

Most Africans abhor homosexuality. According to Behind the Mask, a lobby group, 33 out of 54 African countries ban it. Where it is legal, this is often because politicians deny it exists, and so have not bothered to ban it.

Only in South Africa does the state actively protect gay rights, though Burkina Faso is also quite tolerant, perhaps because of a tradition of religiously-sanctioned lesbianism among the women of the Dagar tribe. In no African country does more than a minority approve of gays. Throughout the continent, “homophobic attacks go unpunished,” Ms Eddy told the UN Commission on Human Rights in March. Her murderers will probably not be caught.

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Iraq

A success, at last

Oct 7th 2004 | TIKRIT
From The Economist print edition

Could the Americans' recapture of Samarra mark a turning point?

AFTER six months of watching one town after another fall to the insurgents, the Americans and their Iraqi allies have gone on the offensive since their troops stormed the city of Samarra, some 100km (60 miles) north of Baghdad, which had see-sawed between central-government and insurgent control ever since American forces evacuated it under bombardment in July. Marines and Iraq's National Guard are now also sweeping an area dubbed by the Iraqi media “the highway of death”—a clutch of Sunni towns south of Baghdad astride the main southbound route, where a number of puritan Islamist groups have a penchant for ambushing patrols of the American-led coalition, Iraqi officials and Shia clergy alike.

The attack on Samarra is probably the most successful of the coalition's bigger operations since the insurgency began. The American soldiers responsible say they crucially had time—three months, in fact—to plan it and make best use of intelligence. By contrast, the botched effort in April to recover rebel Fallujah and Najaf (later taken back largely thanks to the mediation of an ayatollah) suffered from hasty planning and patchy intelligence.

The Americans sound particularly chuffed by the performance of Iraqi troops in the assault on Samarra. The Iraqi 36th commando battalion that secured the city's gold-domed Ali al-Hadi shrine, where a lot of insurgents were holed up, apparently did so without damaging the building too badly, and took two dozen guerrillas prisoner. Iraqi National Guardsmen on patrol outside the city boasted that they had been sent in first because they “knew the Iraqi street better”. Iraq's government is portraying the counter-insurgency as Iraq's patriots versus foreign-sponsored terrorists, not Americans versus a nationalist resistance to occupation.

The new interim prime minister, Iyad Allawi, has been at pains to stress the pride Iraqis take in their martial tradition and says that he wants to create military forces to live up to it. Until recently the revamped Iraqi military and security forces consisted mainly of half-trained light infantry. Now some nine battalions are being trained as part of an elite strike force, along with a mechanised brigade with tanks.

The Americans do not want to exaggerate their success in Samarra. Fallujah and nearby Ramadi will be tougher nuts to crack. In Samarra there were probably several hundred fighters; in Fallujah there may be several thousand. And some insurgents in Samarra may have been persuaded not to fight by the town's powerful tribal leaders, who had earlier tried to broker an accord to let the Americans into the city. Moreover, things in Samarra could get worse again. But Mr Allawi and his American friends hope that their modest success there may mark a turning point. It may be a month or so before they can tell.

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Israel and Palestine

Getting in deeper before you leave

Oct 7th 2004 | TEL AVIV
From The Economist print edition

The recent bloody battles in the Gaza strip still herald Israel's planned exit

AP

Hamas keeping the Israelis busy

THE crowded and miserable Gaza strip has been witnessing some of the bloodiest fighting since Israel's prime minister, Ariel Sharon, declared last year that he intended to pull all the Jewish settlers and troops guarding them out of the area by the end of 2005.

On the face of things, Israel was responding to the hundreds of rocket attacks by Palestinian fighters that have killed several Israeli civilians, including two children, in the border town of Sderot, just across the border from Gaza. More to the point, from Mr Sharon's point of view, may be his determination that his troops should not be seen to leave the strip with their tails between their legs, as they did, in the eyes of both Israelis and Palestinians, when they quit southern Lebanon four years ago. Mr Sharon is particularly keen to thump the Palestinians' Islamic Resistance Movement, better known as Hamas, which has been responsible for most of the attacks, in the run-up to Israel's controversial proposed departure.

So Mr Sharon's forces have hit back ferociously against the Palestinians fighters—and civilians who get in the way. In the past week, more than 200 tanks and armoured vehicles backed by helicopter gunships have invaded the towns of Beit Hanoun and Jabaliya in Gaza's northern part. They have demolished houses and killed at least 80 Palestinians, including an estimated 26 civilians, for the loss of three Israeli soldiers. It particularly angers Mr Sharon that some of the Palestinians' home-made Kassam rockets have a range of 10km (six miles), so might reach the Israeli town of Ashkelon as well as Sderot.

A power vacuum among the Palestinians may lead to chaos in the wake of Israel's departure. Several prominent Israeli commentators have told Mr Sharon to reconsider his refusal to deal with Yasser Arafat, beleaguered but still head of the Palestinian Authority, which is supposed to keep order in the towns of the Israeli-occupied Palestinian territories. Meanwhile, many leading Palestinians in Gaza and the West Bank say that Hamas should be part of a post-withdrawal arrangement too. They say that if Mr Sharon promised to stop the military incursions and halt his campaign to assassinate Hamas leaders, the movement would agree to a truce and let the Israeli forces leave in peace.

In any event, Mr Sharon's most immediate danger is from within his own camp. The settlers and their supporters in Israel's parliament, including many in Mr Sharon's own Likud party, are furiously battling against the withdrawal plan. In the coming weeks, Mr Sharon has to persuade parliament to endorse his plan and must propose legislation to compensate the evacuated settlers. Then there is a contentious budget for next year.

This requires two different sorts of coalition. To disengage from Gaza, Mr Sharon must rely on the opposition Labour Party. To get his budget through, he needs religious and far-right parties that are dead against disengagement. Even if, as Mr Sharon still expects, he wins on both counts, it is by no means sure that his government will survive. He may be forced to have a national referendum on removing any settlements—or he may even have to call a general election. He says he is strongly against both courses, because they would delay the Gaza evacuation.

The coalition's fate is in the hands of three members of parliament from the National Religious Party, who

oppose the withdrawal. If they left, the government would have a distinct minority. Moreover, of the 40 Likud members in Israel's 120-strong parliament, some ten to 15 are rebels who might well vote against withdrawal.

Mr Sharon is pondering several courses. He could conclude the business of getting approval for disengagement and then, before it is carried out, call a summer election. Or he could agree with Shimon Peres's Labour Party to hold a general election in early 2006, after Gaza has been evacuated. As usual, Mr Sharon is likely to make up his mind only at the last moment.

Where would that leave the bulk of the Palestinians' West Bank? “The significance of the disengagement plan is the freezing of the peace process,” Mr Sharon's adviser, Dov Weisglass, told an Israeli newspaper, *Haaretz*, this week. “And when you freeze that process, you prevent the establishment of a Palestinian state, and you prevent a discussion of the refugees, the borders and Jerusalem. Effectively, this whole package called the Palestinian state, with all it entails, has been removed indefinitely from our agenda. And all this with authority and permission...with a presidential blessing and the ratification of both houses of Congress.”

That is not the view of the Palestinians, the European Union, the Israeli left and even some of Mr Sharon's Likud colleagues. He was quick to say after Mr Weisglass's comments that he still favoured the international “road map”. But while Gaza burns, Israel's combative prime minister may be loth to look too far ahead.

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Iraq's weapons of mass destruction

Still not found

Oct 7th 2004
From The Economist print edition

But there was still plenty going on that shouldn't have been

YES, the weapons stocks that America, Britain and indeed most governments expected to find in Iraq after last year's invasion are still not there. But no, that is not proof, as critics claim, that United Nations sanctions were working. On the contrary, Saddam Hussein was trying to play the UN and everyone else for fools; left to his own devices, he would have been quickly back to his chemical, biological, nuclear and missile tricks. If America's intelligence services and others were victims of too much certainty about Iraq's weapons, Mr Hussein fell victim to his own deceit.

That is the gist of the latest, 1,000-page report from the American-led Iraq Survey Group (ISG). Its inspectors have by now ploughed through millions of pages of documents and watched thousands of videos. They have interviewed scores of Iraqis, including the man himself and many of his inner circle. In the ISG's most exhaustive report so far, Charles Duelfer, the chief inspector, tries to pin down not just what was going on in Iraq, but why.

Yet it is the what that still dominates the headlines. For if there were no militarily significant weapons stockpiles, surely there was no threat?

Iraq's covert programmes, especially its nuclear programme, were in disarray. Yet Mr Hussein never abandoned his intent to produce such weapons. Concealment of plans, and of illicit imports, though many with possible civilian uses too, put him in multiple breach of UN resolutions.

Some of what he had been up to appeared in earlier reports. Mr Duelfer lists: improved production methods in the chemicals industry; a covert network of laboratories run by the intelligence services for testing chemicals and poisons, and other evidence of tests on humans; plans for ballistic missiles of ranges from 400-1,000km, well beyond the 150km allowed by the UN, and including efforts to buy missile technology from North Korea and from Russian firms. None of the missiles, however, was in production.

But what was the point of having them anyway without warheads to go on them? Building delivery systems was what Iraq had found hardest. Once it had them, it already knew how to turn out chemical and biological warheads in months or weeks. Interviews show that weapons scientists assumed they would be back in business once the heat was off. Mahdi Obeidi, who used to run Iraq's covert uranium enrichment programme and had been famously ordered to hide the plans under a tree in his garden, concurs. Iraq's nuclear programme could have been restarted “at the snap of Saddam Hussein's fingers,” he wrote recently in the *New York Times*.

But how to get the heat off? Mr Hussein targeted France and Russia for political help. Mr Duelfer reports on how he managed to finance illicit imports by issuing vouchers to those ready to help skim off money from oil sales that should have gone into the UN's oil-for-food programme for ordinary Iraqis. Hundreds of companies were prepared to trade illegally with Iraq, bypassing sanctions. Mr Hussein raked in around $11 billion illegally from a variety of schemes, $2 billion of it from the oil-for-food scams.

By 2002, Mr Hussein was convinced that sanctions had all but collapsed. But if he had no militarily useful weapons to speak of (reports that he spirited some into Syria before the war remain unproven), why did he not do more to show this?

The answer seems to be that his wish to get inspectors off his back, by not dabbling anew, conflicted with his conclusion that being thought to have such weapons had preserved his regime, in his disastrous war with Iran, in keeping the Americans out of Iraq in 1991 after they had pushed the Iraqis out of Kuwait,

and in terrorising internal foes, especially Shias and Kurds. So if the world got it wrong, Mr Hussein got it wronger: he is out of power and in jail.

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Iran

Mullahs rattled by dish and web

Oct 7th 2004 | TEHRAN
From The Economist print edition

Oddballs on satellite television and websites are annoying the ruling clergy

FOR six months, aficionados of Rangarang, a satellite-television station run by exiled Iranian dissidents in Los Angeles, had waited for Ahura Khaleghi-Yazdi, the station's oddest personality, to fulfil his pledge to topple the Islamic Republic. But Iran's ruling clerics survived October 1st, the date he set for his triumphant return home. Iran's self-styled liberator has since been off the screen.

Guiding world events, without a deadline

Los Angeles is home to the world's largest community of Iranian émigrés—and to a score of Persian-language satellite channels. For a while, Rangarang caught the attention of the competition. Rival stations conducted phone-in debates on the veracity of Mr Yazdi's curriculum vitae: he claims to know 17 languages and to be a successful businessman. He also boasts of having special healing qualities, as well as a "unified field of intelligence" that enables him to guide world events.

The debates were viewed with interest in Iran, where millions of people routinely defy a government ban on watching satellite TV. In the run-up to October 1st, Iranians here and there took to the streets in Mr Yazdi's name; some were arrested. Clips of him have been broadcast on state TV, which is trying to turn him and other exiled broadcasters into figures of fun.

That should be easy enough. Some of Mr Yazdi's claims—for instance, that foreign heads of state begged him to delay his return home—are loopy. His fellow presenters tend to be either ancient demagogic monarchists or comely female health gurus, with little in common save an antipathy for the Islamic Republic.

But why does the state spend so much energy discrediting has-beens and faddists? The authorities may be less concerned by the opposition exiles than by the technology at their disposal. It is harder to confiscate thousands of satellite dishes or permanently block a subversive internet site, than it is, say, to close a newspaper; zealous judges have banned dozens of publications over the past four years. "If the opposition becomes more competent," says a seasoned journalist in Tehran, "TV and the internet could be a real danger."

Pre-emption has begun. In August, ten on-line journalists and internet service providers were arrested (some were later freed). The editor of *Keyhan*, an ultra-hardline newspaper, has identified dozens of Iranian journalists working in Iran and in exile as part of a nefarious "network" that uses websites and weblogs to "fling mud at the system" and its leaders. More arrests could follow.

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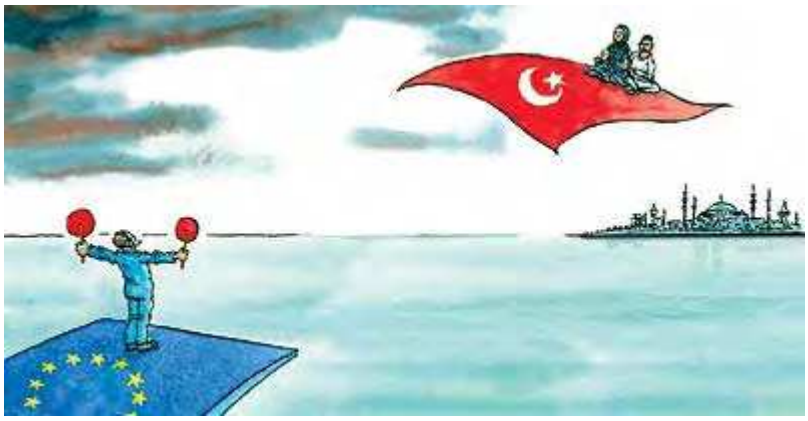
Turkey and the European Union

To Brussels, on a wing and a prayer

Oct 7th 2004 | ANKARA AND BRUSSELS
From The Economist print edition



As expected, the European Commission has recommended the opening of EU membership talks with Turkey

Get article background

“THE commission considers that Turkey sufficiently fulfils the political criteria and recommends that accession negotiations be opened.” It is no exaggeration to say that Turkey has been waiting 40 years for these words. Now that they have been delivered, Turkish membership of the European Union is not only possible: it is probable. But there are still many hurdles to clear before Turkey arrives.

The commission's recommendation is based on a technical assessment. Europe's political leaders must still agree in December to a date for the opening of talks, which most people now expect to be the second half of 2005. The negotiations will then be long and arduous, lasting for a decade or more, since they will centre on how Turkey adopts some 80,000 pages of EU law. And the process could easily be disrupted, whether by instability in Turkey, or by the rise of parties in western Europe opposed to Turkish membership.

The controversy over Turkey's bid has forced the commission to be tougher than expected in its recommendations. Romano Prodi, the outgoing president, went so far as to talk of a “qualified yes”. The biggest qualification concerns Turkey's respect for human and civil rights. Turkey has made far-reaching reforms in this area, but Mr Prodi stressed that a rhetorical commitment was not enough. He promised that “any breakdown in the progress towards democracy, human rights...and the rule of law will automatically bring negotiations to a halt”. Yet this “emergency brake” is in some ways a statement of the obvious. A few years ago, when Slovakia seemed to be about to elect a populist with anti-democratic tendencies, it was made clear to the Slovaks that EU membership talks would be put on hold.

The second big qualification proposed by the commission concerns immigration. The fear that, once Turkey joins, huge numbers of poor Muslim immigrants will stream west is probably the biggest single impediment to its membership. The commission has not dismissed such fears. Indeed, Olli Rehn, the incoming commissioner for enlargement, said that concerns about immigration were “more or less justified”. Yet free movement of labour is a fundamental EU principle; and any restrictions in previous enlargements have always been temporary.

The commission goes beyond this for Turkey by floating the idea of “permanent safeguard measures”. These would stipulate that, if Turkish immigration were deemed to be disruptive to the rest of the EU, controls on free movement could be re-imposed. Officials insist that this is compatible with the EU's fundamental principles. The Turks dispute this.

Two further nuances went into Mr Prodi's qualified yes. First, the commission is to carry out further studies on the impact of Turkish accession. It is clear that the common agricultural policy and regional funds will be unaffordable unless they are substantially reformed before Turkey joins. Second, the commission will lay more emphasis on implementation, rather than just on the passage of legislation. This stipulation reflects a widespread fear that Turkey might simply pass the right laws, without being able to enforce them.

Similar misgivings exist about another EU applicant, Romania, which also received good news this week. The commission at last certified that it has a “functioning market economy”, a precondition for membership. Both Romania and Bulgaria thus remain on course to join the EU by 2007. But political opposition to admitting Romania so quickly is mounting. Privately, several senior commission officials also have reservations.

Turkish delight

Radiating confidence, Turkey's prime minister, Recep Tayyip Erdogan, responded positively to the commission's report. He said it was “generally balanced” and asserted that it had set out a clear perspective for Turkey's accession. The commission's work had now been completed, he added, and he urged EU leaders to follow its recommendation to start negotiations, and to do so immediately. He insisted that he was making reforms because he believed in them, not just for the EU. And he said that “if the European Union has decided to be a Christian club rather than one of shared values, then let it say so now.”

What about the qualifications the commission has added? Many within Mr Erdogan's Justice and Development Party shrug them off as little more than a ruse by European leaders, designed to calm domestic opposition to Turkey's eventual membership. Such optimism may be naive. It is also an attempt to assuage bruised feelings in Turkey about being treated differently from previous applicants. But it could just be a more hopeful sign that Turkish leaders and opinion-makers have abandoned the prickly nationalism and truculence of their predecessors that long made Turkey such a troublesome partner for the EU.

“The truth is that there won't be negotiations,” says one Turkish diplomat. “The EU will lay down the law, and we will have to abide by it.” The reason is that neither Mr Erdogan nor Turkey can afford to pull the plug on Europe. An overwhelming majority of Turks favour EU membership. And that casts Turkey in the role of *demandeur* in membership negotiations.

Could anything go wrong between now and December? Mr Erdogan must avoid touching off the sort of controversy sparked by his (now abandoned) plan to criminalise adultery; he cannot afford anything that suggests he is a closet Islamist. The Turks need to be less prickly over Cyprus—recently they fell out with the EU over the status of northern Cyprus at a planned foreign ministers' conference, which was cancelled. Above all, they must hope to avoid further big trouble in the mostly Kurdish south-east, where violence has returned and Turkish soldiers and Kurdish rebels are being killed every day.

It is a tall order, but Mr Erdogan has invested so much in his European dream that he will probably get his date in December. The bigger question is whether that makes Turkish membership inevitable. No country has failed to complete its entry negotiations. But this time, the risk is greater. The leader of the biggest political group in the European Parliament, Hans-Gert Pöttering, declared this week that non-membership must remain a possible outcome. His German Christian Democrat party is opposed to Turkish entry, favouring a “privileged partnership” instead. And last weekend President Jacques Chirac promised that France will hold a referendum on Turkish entry. Other countries could follow suit. Even if Turkey keeps Europe's leaders on side, it could still fall foul of Europe's voters.

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Greeks in Turkey

A common home

Oct 7th 2004 | MUSTAFAPASHA, TURKEY
From The Economist print edition

Turkey's Christian heritage is poised between revival and extinction

WHEREVER they live, and whatever passport they hold, people with common roots in a small, remote place feel connected. For an example, take the links between Greek émigrés and local Turks, who all see Mustafapasha, a village in the volcanic landscape of Cappadocia, as their common home.

A century ago, the village then known as Sinasos was one of the richest in Anatolia, thanks to fortunes made in Istanbul by members of its Greek Orthodox majority. Their mansions and churches still dominate the landscape. But in 1924, they were expelled after the Lausanne Treaty, which decreed a population swap between Greece and Turkey. Unlike places to the west, which saw bitter Greek-Turkish strife, this region was peaceful, and there was real sadness among local Turks over the exodus.

Since a thaw in Greek-Turkish relations began in 1999, the Greeks who originated in the village have been revisiting, to the delight of a 2,000-strong populace that lives largely on tourism. In the town hall, a mural by a Greek artist depicts the pain of separation. At a meeting this month of the Lausanne Treaty Foundation, which brings Greeks and Turks together, everyone connected with the village nodded approval as a Turkish professor, Sacit Pekak, lamented the neglect of the region's unique patrimony of Christian churches.

Could this village's new-found togetherness presage a broader reconciliation inside the EU? In theory, a European Turkey would allow Greeks to buy back their old houses and re-establish businesses. Among the Greeks left in Istanbul—only 2,500, mostly old—there are fears of extinction, as well as hopes of revival. The Zographeion, one of three remaining Greek high schools, has 49 pupils, down from 700 in 1962. Its headmaster says 97% of his alumni have emigrated. The management of the city's 60 or 70 churches faces endless hurdles: red tape prevents repairs to the beautiful Panayia church, damaged by the 1999 earthquake. Patriarch Bartholomew, the senior bishop in eastern Orthodoxy, resides in Istanbul; he still hopes his seminary, shut since 1971, can reopen.

On the bright side, there are 50 or 60 Greek firms in Istanbul, up from three or four a decade ago. Laki Vingas, a Greek businessman, says Greece's investment in Turkey will burgeon if the country gets a date for EU negotiations. But will revival avert extinction? Despite the bonhomie that common roots in Cappadocia can inspire, it is a race against time.

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Reform in the Netherlands

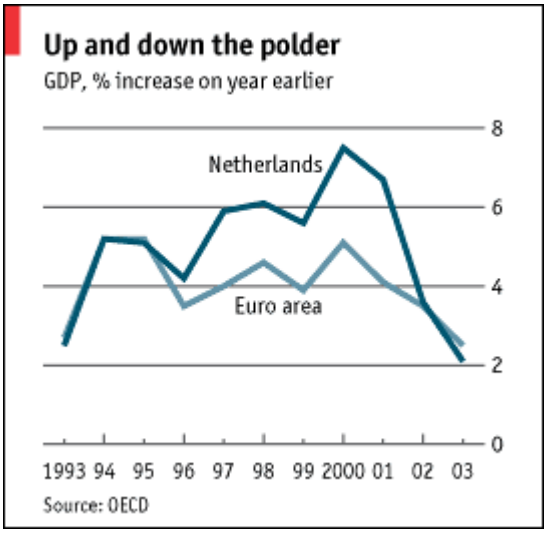
Going Dutch

Oct 7th 2004 | AMSTERDAM
From The Economist print edition

The polder model is under attack

IN FEW countries would you see a 200,000-strong demonstration in favour of something as abstract as a "model". But this is the Netherlands. The people who took to the streets of Amsterdam last weekend, in the biggest protest in the capital for two decades, had come to fight against reforms that the government is making and against its attempt to bulldoze them through the country's "polder model" of economic change by consensus.

The focus of their ire is a set of economic and social changes planned by the Christian Democrat-led coalition government, which it has branded under the label "taking responsibility for oneself". It offers cover for proposals to trim welfare benefits and to liberalise the labour market. Trade-union opponents use a different term: "arrogance and lack of compassion". Opinion polls suggest that three out of four voters think the same. Approval ratings for Jan Peter Balkenende, the prime minister, have reached record lows. Yet Mr Balkenende seems determined to continue with reform, in an effort to improve a stuttering economy.



After a period of rapid growth in the 1990s, Dutch GDP has since moved at a snail's pace (see chart). The week before the Amsterdam protests, the government adopted further measures, including scrapping tax breaks for early retirement and cutting unemployment and disability benefits. Perhaps surprisingly, Dutch voters seem to agree that reforms of their beloved welfare state are necessary. But what they (and the protesters) object to is the way the government has gone about them.

Under the polder model, named after the Dutch habit of working together to reclaim bits of land from the sea, big reforms are supposed to be negotiated between the government, trade unions and employers. The three parties try to find a compromise; and, after many weeks of talks, a binding consensus is normally arrived at, guaranteeing eventual acceptance of the measures. Foreign luminaries such as Bill Clinton and Tony Blair once praised the polder model as a nifty way of combining the liberal economy with a functioning welfare state. In the 1990s it was the subject of fulsome praise for helping to foster the "Dutch miracle"—until the miracle's shine wore off.

Yet the polder model endured until this year, when the government refused to accept a deal on pension reform that unions and employers had made, despite an earlier promise that it would. Instead, it put forward its own plan. This antagonised the unions and led to a trading of insults in place of normal Dutch politeness. The leader of the biggest union, Lodewijk de Waal, called one minister a "liar" and a "conman", and talked of taking "the arrogant smirk off the face" of another.

The unions are now flexing their muscles more openly. Besides last weekend's street protests, Rotterdam, the world's largest port, has been hit by a 24-hour strike. Mr de Waal says this is just the beginning: he has announced a new wave of strikes, and hopes to organise a referendum on the government's policies by the end of the year. But the government is unwavering. "The polder model may have been good in the fat years," says the (liberal) economics minister, Laurens Jan Brinkhorst, "but it is unable to offer efficient solutions to the acute problems the country is now facing."

The Dutch protesters may be reluctant, but they now seem determined to fight. Having discovered their attachment to the polder model, they are eager to defend it. Too late, many think. But the head of a government advisory think-tank, Anton Hemerijck, says the model has not lived its last. “Sooner or later the Dutch will return to negotiating with each other again,” he says. “After all, that's what they do best.”

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The French press

Paper dreams

Oct 7th 2004 | PARIS
From The Economist print edition

More trouble on the Parisian newspaper scene

AN EDITOR sacked. A newsroom in turmoil. A proprietor defiant. Such scenes may be familiar in London or New York. But the dismissal of Jean de Belot, editor of *Le Figaro*, France's leading centre-right paper, by its new owner, Serge Dassault, and his replacement by Nicolas Beytout, previously editor of *Les Echos*, have rocked the Parisian press. After months of uncertainty, *Le Figaro* journalists talk of “a small revolution” at the 178-year-old paper.

The commotion began in March when Dassault, a defence company, bought the paper along with dozens of regional titles. Mr Dassault, the company's boss, made no secret of his views. Articles that “put at risk our country's commercial and industrial interests” concerned him. Reporters complained of interference. Then Mr Dassault was elected to the Senate for President Jacques Chirac's ruling party. Mr Chirac is in Asia promoting sales of Dassault's new-age Rafale fighter. Journalists were more than a little troubled. Last month, in a secret ballot, 93% backed a resolution affirming their right to “denounce publicly” any attack on their independence.

So imagine the surprise when Mr Dassault swept out Mr de Belot, along with the paper's director-general and the group's boss. His new team vowed to overhaul the paper's culture and install a separation of powers between journalists and management. “The title must be completely independent,” said Mr Beytout. His credibility stems from eight years editing *Les Echos*, France's top business paper, owned by Britain's Pearson (part-owner of *The Economist*), which keeps editorial and commercial teams strictly apart. Mr Beytout promised journalists at *Le Figaro* that he had similar guarantees of independence from Mr Dassault, and that the paper would in future not endorse any political party or candidate. “There is a feeling of liberation,” says one journalist. “It's as if we were emerging from a totalitarian system.”

Whether Mr Beytout can put his fine words into practice remains to be seen. But modernising the corporate culture is not his only challenge at *Le Figaro*. Like most of the French press, it is losing readers. Since 2002, according to Diffusion Contrôle, a press auditor, circulation has dropped by 3%, to 347,174. The paper is expected to lose money in 2004. The cyclical ad downturn has combined with secular trends that menace newspapers everywhere: ageing readers, plus competition from free papers, television and the internet.

Since 2002, circulation of *Libération* has fallen by 5% to 156,247; at *Le Monde*, which is cutting jobs, it is down by 6% to 380,812; and at *France Soir* it has dropped by 13%. Each paper is groping for ways to reverse these trends. *Le Monde* recently launched a glossy weekend magazine, and is said to be considering changing from an evening to a morning paper. Mr Beytout says he will give *Le Figaro* a fresh, more modern feel. Certainly, most of the French press looks as staid as it reads.

Could it be that the intellectual Paris-centred dailies are out of tune with a changing France? Judging by the media that are doing well, the French are now a nation of radio-listening car-drivers, telly addicts and football nuts. The best-selling national is a lively tabloid, *Le Parisien-Aujourd'hui*, which is full of health scares and consumer scandals. The regional paper *Ouest-France* sells twice as many copies as any of the Paris-focused nationals. And one of the few dailies with climbing sales is *L'Equipe*, the sports fan's bible: it now sells more copies than *Le Figaro*.

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Spain and ETA

Decapitated?

Oct 7th 2004 | MADRID
From The Economist print edition

The capture of top ETA leaders may not be enough to destroy the organisation

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Antza in his pantza

IT WAS a spectacular coup. On October 3rd Mikel “Antza” Albizu Iriarte, political leader and chief ideologue of ETA, the Basque terrorist group, was arrested in the town of Salies-de-Béarn in France, along with his girlfriend, Soledad “Anboto” Iparragirre Genetxea. Fifteen other suspects were also nabbed. In seven separate caches, arms were found, among them over 1,200kg of explosives, two Russian-made ground-to-air missiles, 44 submachineguns and an assortment of pistols. Following leads gathered in the raid, five more suspected ETA members were later arrested on the Spanish side of the border, in Pamplona, San Sebastián and Irún. They were reportedly awaiting instructions to carry out attacks.

The French justice minister, Dominique Perben, hailed the capture of ETA's political leader as “a great battle won in the war against terrorism...a very fine operation”. Spain's prime minister, José Luis Rodríguez Zapatero, trumpeted “a major step towards ending the violence of the terrorist group, ETA”, adding that “ETA's destiny can only be its demise.”

Yet Spain has been here before. ETA suffered a big setback in 1992, when another raid in a French village led to the arrest of its entire leadership. But the group, which has killed 817 people since its first assassination in 1968, sprang back to life. Is there anything new this time? ETA has long used southern France as a sanctuary, and a base from which to launch attacks on Spain. Indeed, many Spaniards have suspected France of turning a blind eye as long as no atrocities were committed on French soil. But though some suspicions linger, co-operation between the French and Spanish in hunting down ETA has been stepped up since the mid-1990s.

According to the Spanish newspaper *El País*, as many as 164 of the 709 ETA suspects who are now in detention were arrested in France. And it is the French who catch the biggest fish. In April ETA's logistics chief, Felix Ignacio Esparza Luri, and its political and military co-ordinator, Felix Alberto Lopez de la Calle, were both arrested in France. The Spanish and French police forces have set up joint squads dedicated to pursuing ETA.

Is there now a chance of greater co-operation still? Mr Zapatero's centre-right predecessor, José María Aznar, puffed up his record against ETA. But given Mr Zapatero's wish to strengthen Spain's links with France and to eschew Mr Aznar's pro-American stance, Spaniards hope for still more action against ETA. The group's last fatal attack was in May 2003, when two policemen were killed by a car bomb in Navarre. In the summer ETA managed a series of low-level bomb attacks in seaside resorts. Last month it planted some bombs beside pylons in the Basque region.

The Spanish hope that ETA will now disintegrate into an obscure and politically impotent terrorist group. But some doubts remain. ETA still has strong backing among supporters of Batasuna, the banned Basque nationalist party. And the large country house in which Antza and Anboto lived quietly, fattening their ducks, before their capture has given commentators further food for thought. Why did it take so long to arrest them?

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Regional languages

Spanish practice

Oct 7th 2004 | MADRID
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The delicate politics of language recognition

SPAIN'S foreign minister, Miguel Ángel Moratinos, may have meant well when he asked the European Union to make four regional tongues—Catalan, Basque, Valencian and Galician—"official languages". Yet Catalan nationalists were furious. They accused Mr Moratinos of making an "artificial" distinction between Catalan and Valencian, which they deem a mere dialect of Catalan. Josep Lluís Carod-Rovira, head of the Catalan Republican Left (ERC), said that, if Valencian were included, Catalan should not be. An ERC spokesman accused the government of "ignorance, lack of culture and bad political faith". Yet the centre-right Valencian government supported the plan.

The Catalan government is strict on language: it has fined the Spanish postal service €30,000 ($37,000) for not having all its labels and stamps in Catalan. Language is central to Catalonia's demands for more autonomy from Madrid. Catalan claims to be the seventh-most-used language in the EU. It is spoken in three other regions: the Balearics, parts of Aragon and—say the Catalans—Valencia.

Mr Moratinos denied any intention of opening a "linguistic war". He noted that Valencia's regional statute provides for Valencian to be an official language, alongside Castilian. "What I would say to the Catalans is that they should be very satisfied, and I know that they are," he added, soothingly.

Alfonso Ussía, a commentator for the daily newspaper *La Razón*, called Mr Moratinos's plan a "ridiculous Babelish petition". He and other critics fear that the debate could spread to Spain's other dialects and languages, such as Mallorquin, Aran (spoken in one valley in Catalonia) and Panocho (spoken in parts of Murcia). Right on cue, a member of the Asturias regional government has demanded that Bable (sic), an Asturian dialect, be given official recognition. "This linguistic diversity does not authorise us to turn Europeans mad with these demands...for the simple reason of good manners," harrumphed Mr Ussía.

In its usual spirit of "consensus and dialogue", the government has set up a committee to resolve the dispute. The deputy leader of the Catalan government, Josep Bargalló, has suggested the compromise "Catalan/Valencian". But this was rejected by the Valencians. The tongues will keep wagging.

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Charlemagne

The Norwegian option

Oct 7th 2004
From The Economist print edition

Those strange European countries that have kept out of the European Union

THE mention of Norway or Switzerland tends to bring a strange gleam to the eye of British Eurosceptics. This is not because they have a deep love of alpine pastures or misty fjords. Rather it is because the Norwegians and Swiss are the only two decent-sized western European nations who have resisted the temptation to join the 25-country European Union. What is more, they are extremely rich. Norway and Switzerland boast the highest incomes per person of any European countries, bar micro-sized Luxembourg.

The wealth of Norway and Switzerland is arguably more a cause than a consequence of their decisions not to join the EU. Norway is one of the biggest oil-and-gas producers in the world, and Switzerland has long been richer than the European norm. But, at the very least, the two countries have demonstrated that it is possible to stay out of the EU and still prosper. On a recent pilgrimage to Oslo, Peter Hitchens, a Eurosceptic British journalist, discovered a “real nation which controls its own destiny”.

But does it? When Norwegian voters rejected membership of the EU in 1994, Norway opted instead to join the European Economic Area. The EEA gives it access to the EU's internal market and its “four freedoms”: freedom of movement for goods, services, people and capital. But this comes at a price. The Norwegians are obliged to accept every single piece of internal-market legislation, and they have no vote on these laws. Norway had to restructure its entire natural-gas industry to satisfy the EU's competition authorities. All European environmental and social legislation has also had to be adopted, including those irksome EU regulations on working-time and parental leave that drive British right-wingers to distraction. Norway even makes a sizeable contribution to the EU budget—as large as that made by a comparable-sized EU member, such as Denmark.

All this has led many to conclude that Norway would actually be better off joining the EU. At least it would have some say over all the legislation it is forced to adopt. Jens Stoltenberg, leader of Norway's opposition Labour Party, bemoans his country's “fax democracy”, in which officials sit by the fax machine waiting for the latest directive from Brussels to arrive.

But there are still many areas of EU policy from which Norway remains genuinely independent. Unlike the ten countries that joined the EU this year, the Norwegians are under no obligation to adopt the euro. Norway is not bound by the EU's embryonic common foreign policy. Perhaps most significantly, from the viewpoint of a maritime nation, it has not signed up to the EU's common fisheries policy. The Norwegians have been able to maintain their own 200-mile coastal exclusion zone, which remains well stocked with fish, unlike the EU's grossly depleted waters. Nor are they paying members of the common agricultural policy—although before free-marketeers cheer too much, it should be conceded that both Norway and Switzerland subsidise their farmers far more heavily even than the EU.

The cuckoo-clock model

For those who find even the Norwegian relationship with the EU a little too intimate, Switzerland offers a more detached one. The Swiss rejected membership of the EEA in a referendum in 1992. That has meant that, rather than having guaranteed access to the four freedoms of the internal market offered to Norway, Switzerland has had painstakingly to negotiate agreements sector-by-sector. By and large, its diplomats have been remarkably successful. Since 2002, all Swiss citizens have been free to live and work anywhere in the EU. Swiss multinationals enjoy full access to the European market. But the Swiss have more freedom than the Norwegians to opt out of bits of legislation they dislike. EU limits on working hours do not apply in Switzerland; nor does the demand that sales tax be set at a minimum of 15%.

Above all, Switzerland is able to retain its tradition of direct democracy. The constitutional provision that laws can be thrown out by citizens' ballots is incompatible with the EU's demand that all would-be members implement all 80,000 pages of EU law.

The downside of this sturdy independence, however, is a lingering sense of insecurity and a feeling that Swiss business is losing competitiveness because it is excessively sheltered. Goods and services are often much more expensive in Switzerland than in the EU, and Swiss growth has been feeble recently. The Swiss are also uncomfortably aware that, as a nation of 7m negotiating with a behemoth of 455m, they can always be leant on. When negotiations with the EU over banking secrecy were going badly recently, Swiss travellers to Germany suddenly found that their documents were being checked more rigorously, causing huge queues at the border.

Will Switzerland and Norway eventually throw in the towel and join the European mainstream? There is not much sign of a change of heart in the short term. But in the longer run, history seems to point only one way. The four-country European Free Trade Association, to which Switzerland and Norway, along with Iceland and Liechtenstein, belong, used to have a much larger membership. But Britain, Denmark and Ireland joined the EU in the 1970s; and Austria, Sweden and Finland quit in favour of the EU in 1995. Even some of the officials who run EFTA seem to believe that it is only a matter of time before their organisation is wound up.

Yet it is also just possible that things could go the other way. Switzerland and Norway are outside the EU mainly because their governments could not win referendums to join. A number of EU countries will hold referendums on the new constitution over the next two years. Those that reject the constitution will have the right to stay in the EU—but, if they are a small minority, they might have to negotiate a new kind of relationship. And if that happens, the Swiss and Norwegians might end up as role-models, rather than eccentric exceptions.

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Immigration

Out of Africa

Oct 7th 2004 | TOXTETH
From The Economist print edition

Britain's immigrants used to come from its former colonies. Now they come from all over the world—especially Africa

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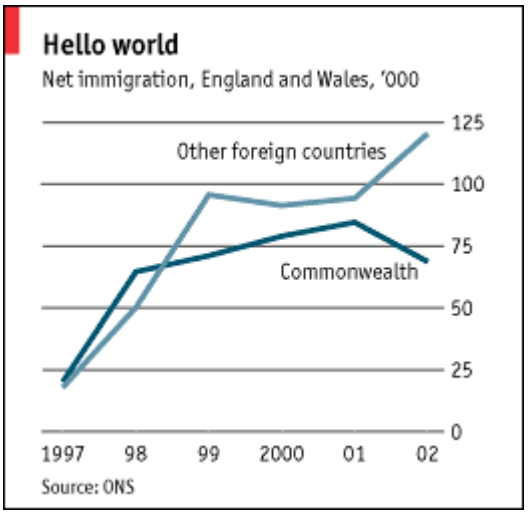

TOXTETH has not changed much since 1981, when it suffered one of Britain's worst riots. The Liverpool neighbourhood is still so neglected that, in some streets, not a single house is occupied. It remains overwhelmingly a black area. But one thing has changed. According to Mohamed Osman, a Somali immigrant who runs a telephone centre in the heart of Toxteth, black Africans now outnumber West Indians and their British-born descendants—a group that he refers to as “blacks”. “And there are more of us arriving every day,” says Mr Osman, with a touch of pride.

For much of the 20th century, immigrants into Britain followed, in reverse, the paths trodden by imperial administrators. Ex-colonies in Ireland, the West Indies and the Indian subcontinent supplied the largest groups of settlers. But history and proximity matter less these days. Since 1999, countries outside the Commonwealth and the European Union have been larger net exporters of people to Britain than the other two sources combined.

One result is the transformation observed in Toxteth by Mr Osman. The 1991 census recorded fewer than half as many black Africans as Afro-Caribbeans in Britain. In 2001, the numbers were 485,000 and 566,000. Since then, the balance has tipped. Four out of the past five quarterly Labour Force Surveys estimate the black African population as equal to or greater than the Afro-Caribbean population, and the most recent survey puts them well ahead at 618,000. The oldest ethnic minority group to arrive in Britain in any numbers has been overtaken by the newest.

Immigration and asylum are part of the reason: last year, African settlers outnumbered West Indians by almost ten to one. But the way the groups behave in Britain also explains the speed of change. Many newly arrived black Africans have large families, while West Indian households are as small as those of whites. That helps to explain why, in 2001, 55% of black Africans in Britain were under the age of 30, compared to just 37% of Afro-Caribbeans.

It isn't just that the older minority group is having fewer babies; thanks to integration, it is having fewer Afro-Caribbean babies. The 2001 census showed that white and black mixed-race children outnumbered “pure” Afro-Caribbean children four to three; such children may well identify themselves as black, but are unlikely to feel much kinship with the West Indies. It is a different story among black Africans, where children born to two black parents are three and a half times as numerous as children with one white parent.

Strong ties to countries of origin reinforce black Africans' insularity. Neighbourhoods are characterised not so much by ethnic grocers and restaurants as by long-distance telephone centres and internet cafés. Last year, Britain spent more time on the phone to Ghana than to Jamaica, according to Telegeography Research. Money flows, too. But such links do not mean the new arrivals are less tied to Britain. Last year, new British citizens from Somalia outnumbered Australians, Canadians, Jamaicans and Americans put together. They are a classic example of what Steve Vertovec, an Oxford geographer, calls a “transnational” community—one that exists in more than one place.

Oddly, the sea change in Britain's ethnic minority population has gone virtually unnoticed by politicians and pressure groups, for whom the word “black” connotes West Indian origins just as surely as, in America, it implies a history of enslavement. The quietness of the black African advance may be explained by the fact that many have settled in Afro-Caribbean areas, where they are “invisible” to outsiders. But it is also because the new arrivals haven't forced the government to engage with them. As Cyril Matuwidi, of Zacca Lisanga, a Congolese expatriate outfit, puts it, “We haven't revealed ourselves yet.”

One way that ethnic groups force governments to engage with them, of course, is to be hopeless. That is not the case for black Africans—or, at least, not universally. Single-parent households are considerably rarer than among Afro-Caribbeans. Anglophone immigrants from countries like Nigeria and Ghana are aspirational; thanks mostly to them, 38% of black African adults hold higher educational qualifications—more than any other ethnic group. But younger arrivals from war-torn nations are not faring so well. In tests at school, black Africans now perform almost exactly as well as Afro-Caribbeans—that is, badly.

Eventually, weight of numbers will force engagement. Simon Woolley, head of Operation Black Vote, a non-partisan group, says that black Africans are becoming more politically engaged, although they still lag far behind other minority ethnic groups. Toxteth recently elected its first Somali councillor, who claims to be the only one in the country. For the moment, remember that the next time you hear a politician banging on about the problems of black youth, they are not talking about all black youth, nor even the majority.

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Law lords

Supremely important

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A challenge to Britain's Guantánamo

THIS week provided the best illustration yet of how European human-rights legislation is turning Britain's House of Lords into an American-style Supreme Court. High-profile clashes between the government and the constitution are standard fare in America. In Britain, where the Human Rights Act, derived from the European Convention on Human Rights, is a sort of embryonic constitution, they are novel. But that's what happened when lawyers for nine men, most of them held without charge for nearly three years, challenged their detention, arguing that it not only violates international law, but also threatens the values that Britain's anti-terrorist laws are meant to protect.

The 2001 Anti-terrorism, Crime and Security Act gives ministers the power to detain any foreigner who poses “a risk to national security, and has links with an international terrorist group”. This required Britain to opt out of Article 5 of the European convention guaranteeing the right to liberty and a fair trial. Opting out is permitted in cases of “public emergency threatening the life of the nation”, but no other European country has done so.

Human-rights groups have likened the detainees to those in Guantánamo Bay, but the parallel can be overdone. Unlike their counterparts held by the Americans, Britain's detainees have access to a lawyer of their choice and the right of appeal to an independent tribunal. They are also theoretically free to leave the country—though the government may not deport anyone at risk of being killed or tortured.

Of the 16 detained, all north African Muslims, two have left Britain, one has been released on bail, a fourth has been freed after winning his appeal against continued detention and a fifth has been released because he was no longer deemed a security threat. The present legal challenge has been mounted on behalf of eight men in Belmarsh prison, south London, who have had their appeals rejected, and one who was released last month.

That this case is being heard by a panel of nine law lords instead of the normal five—which has happened only once since the second world war—is a measure of its importance. Lord Steyn, one of the most respected law lords, agreed not to sit on the panel having declared, in November 2001, that Britain's derogation from Article 5 “is not, in the present circumstances, justified”. The government for its part is fielding a team of six barristers headed by the attorney-general, Lord Goldsmith. He argues that the extraordinary nature of the terrorist threat since September 11th 2001 justifies extraordinary measures.

A ruling is not expected for another six to eight weeks. If the detainees lose, they could still appeal to the European Court of Human Rights—which originally gave its blessing to Britain's derogation from Article 5. The government has no such right of appeal. An adverse ruling would constitute a severe blow to its moral standing as well as to its plans for a new raft of anti-terrorist measures.

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Football

From Tampa Bay to Old Trafford

Oct 7th 2004
From The Economist print edition

Why Manchester United might not be a great buy

Get article background

EPA

Glazer has a gleam in his eye

THERE'S nothing new in rich foreigners buying British football clubs: Mohamed Al Fayed, an Egyptian, paid £30m ($50m) for Fulham in 1997. Roman Abramovich, a Russian, bought Chelsea last year for £60m, plus £100m of debt. Now Malcolm Glazer, an American, seems to want Manchester United.

But United will not come so cheap. No details of the bid have been made public, but most commentators expect it to value the club at about £800m. That is more than Mr Glazer could afford, even with his existing 19% stake. *Forbes* estimates his worth at about $1 billion, meaning that any offer would have to be financed with debt, and Mr Glazer would have to improve United's profitability to repay his loans. The club is one of the most financially sound in the Premiership, but its annual profits are down 30% , and falling TV revenues are expected to keep them low next year.

Some 36% of the club's cash still comes from people who go to watch matches, and fans worry that Mr Glazer will raise ticket prices. That's what he did when he bought the Tampa Bay Buccaneers, an American football team. The strategy worked there—he paid $192m for the team in 1995; it is now worth $774m—but might hit trouble in Britain, where bolshy fans are already spoiling for a fight. One director, whose shares were bought by Mr Glazer in January, found his car daubed with red paint.

There are other possibilities. The club has a global following of 450m fans, and some commentators think that Mr Glazer could turn merchandising into United's main business. They see the club selling everything from shirts to DVDs all over the world, but especially in untapped markets in America and parts of Asia. But the board is aware of this potential, and it is hard to see what Mr Glazer, with little experience of international marketing and less of English football, could contribute.

Part of the problem for a proprietor interested in making money out of football is the ones that aren't. Mr Abramovich, for whom the purchase of Chelsea was small beans, has been on a £200m buying spree that has inflated the price of players. Manchester United's dominance has already faded; reclaiming it in the face of the Russian billions will be hard, even without a lot of debt.

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Schools

Pay up! Pay up! And play the game!

Oct 7th 2004
From The Economist print edition

Getting a decent education for your child requires cunning as well as money

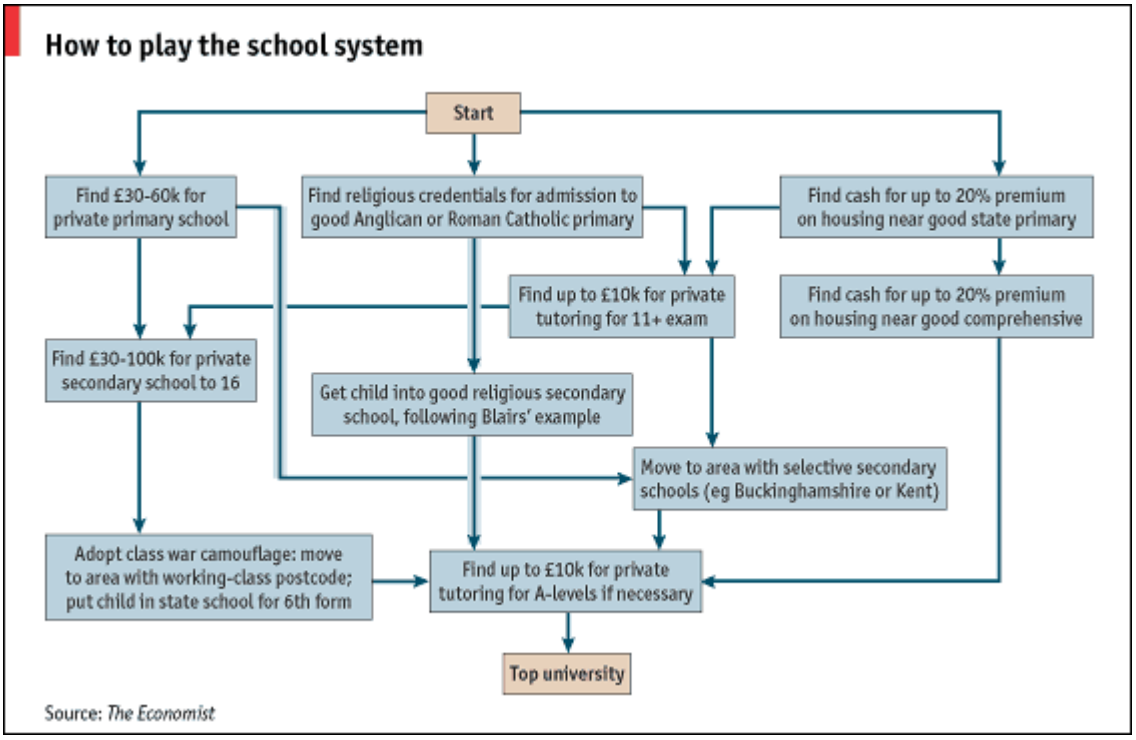
Get article background

CLASS war is never far away in British education. It's sad but true that most of the best schools are fee-paying ones, which help their pupils win the excellent exam grades that lead on to a state-subsidised place at top universities.

The government wants to change that: it bullies top universities to take more state-school pupils, who are more likely to be from poor backgrounds. This week it issued tough new benchmarks for the numbers of state-school pupils that universities "ought" to take. The result is pressure "to admit as many state-school pupils, and as few fee-paying ones, as possible," says Alan Smithers of the (privately financed) University of Buckingham.

Distorting the system like this increases the chance that people will try to cheat it. Canny middle-class parents are now wondering if it's worth buying the best education they can afford for their children, for fear that they will be stigmatised when it comes to university entrance.

The game is to get the maximum quality of education for the minimum outlay, while ensuring that your child is not fingered as a class enemy when it comes to university entrance. How you manage this (see box) depends on money, religious belief and mobility.



If you have lots of cash, a bright child and don't want too much hassle, the best option is to send your offspring to an independent school from the start. It will be costly: £5,000-10,000 ($9,000-18,000) a year at the primary stage, £6,000-£20,000 for secondary school, depending on quality, location and whether it is a day or a boarding school. But when your child is 16, you move him to the state sector for

two years. The government's bean counters will treat him as a state-school product. Applications to universities such as Cambridge, however, will list all his schools, showing what a well-trained chap he is. That should maximise his chances.

To play safe, you can also move house to somewhere grotty. Universities are paid extra for taking students from poor districts. You can always move back to a more salubrious area as soon as your child's application has been accepted.

If that's too expensive or disruptive, there are plenty of other options. The simplest is to move to the catchment area for a good state primary school. You can do the same thing later on, to get into a good (usually meaning solidly middle-class) state comprehensive. In London, house prices may be up to 20% higher in the right catchment area—but you can regard that as an investment: sell the house once your child is safely enrolled, and you'll be unlikely to lose money on the deal. Or you can rent.

Many of the best state schools are church-run. Your chances of getting in are greatly strengthened if you can have a letter from your priest, saying that you attend Sunday worship regularly. The best example of this is the prime minister: his children go to excellent, heavily over-subscribed, Roman Catholic state schools. Luckily for parents with wobbly faith (or a cynical lack of it) such schools are no longer allowed to interview.

The third option is to try for a place at a selective state school. This may mean moving to Kent or Buckinghamshire, two solidly Conservative counties that have preserved the 11+ exam which selects children for high-performing schools. Your child will have her best shot at this exam at a private primary school. This needn't cost much: Merton Court, for example, a Kent school with stellar 11+ results, charges only £6,300 a year. Given what you save on school fees later, that's a bargain.

Another option is private tuition, used by one in four parents according to a recent survey. It can be expensive: £30 a session, say, five times a week. But it has a big advantage: invisibility. Your child can arrive at university expertly tutored, but with impeccably plebeian credentials (as with the Blairs: they hire tutors from Westminster, London's brainiest private school).

The government is constantly trying to change the rules to prevent such game-playing. One threat is to penalise university applicants on their parents' educational background as well as their own. Getting round that will be tricky: “Sophie, 17, seeks kind, preferably working-class, foster parents to see her through university admission and help her shed the disadvantages of her middle-class origins. No graduates need apply.”

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House prices

Will it be different this time?

Oct 7th 2004
From The Economist print edition

A crash will still hurt even if it causes less economic misery than in the past

SOMETHING odd has happened to the debate about the housing market and the economy. As the chances of an imminent fall in house prices have risen, there is increasing insouciance about the likely impact on the economy.

The evidence that the housing market has turned sour after the long boom since the mid-1990s is mounting. In the first half of 2004, house prices increased by over 1.5% a month according to the Nationwide Building Society. But in August and September, they barely rose, with gains of just 0.1% and 0.2% respectively.

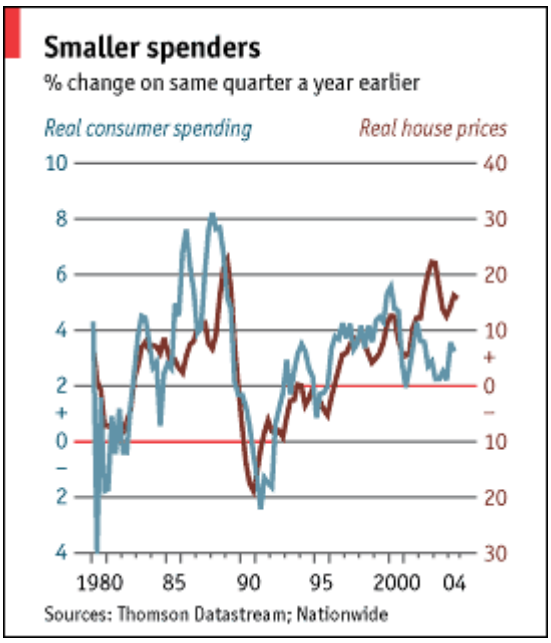
The setback to the housing market comes after prices have risen well above their sustainable level, which is largely determined by household income. The ratio of house prices to earnings is 55% above its average level in the past 20 years. Past experience may count for less in the current environment of low inflation, which makes the cost of borrowing less onerous in the early years of a mortgage loan. Even so, there is widespread agreement that houses are overvalued by 20-30%.

So what will happen to the economy if house prices nosedive? Capital Economics predicts a fall of 20% over the next two years, which would reduce real housing wealth by 25%. That sounds scary but the consultancy's scenario does not jolt the economy into recession. Instead it forecasts only a modest slowdown in growth.

If this conclusion is right, much has changed, for the fortunes of the housing market and the economy have long been intertwined. The Treasury identified the housing market as the main obstacle to Britain joining the euro in its assessment last year. Gordon Brown, the chancellor of the exchequer, argued that “most stop-go problems that Britain has suffered in the last 50 years have been led or influenced by the housing market”.

The obvious danger now is that a house-price crash will prompt another stop in the economy. The housing market contributed to the boom of the 1980s as households released equity in their homes and saved less. A relaxation of credit restrictions led to a big increase in mortgage-equity withdrawal, which occurs when households borrow more in home loans than they invest in new houses and home improvements. But when house prices fell in the early 1990s, this process went into reverse. Households released less home equity, savings rose and consumption fell.

Mortgage-equity withdrawal ran at 7.5% of households' post-tax income in the second quarter of 2004—about the same as the peak of the late 1980s. But this does not mean that a replay of the early 1990s is inevitable. In the past few years, the relationship between housing-equity release and consumer spending has loosened. Since 1998, the saving ratio—household saving as a percentage of disposable income—has stayed broadly unchanged while mortgage-equity withdrawal has risen sharply. The household sector as a whole has used the release of housing equity mainly to build up financial assets rather than to finance consumption.



Since the link between house prices and consumer spending has weakened in recent years (see chart), this suggests that falling house prices will wreak less economic damage than in the past. Another reason not to fear a re-run of the early 1990s is that the economic fundamentals are healthier. Inflation is under control and so there is no need for interest rates to move much higher, let alone double as they did in the late 1980s. A fall in house prices that is not directly caused by a deterioration in the economy is unlikely to affect consumption and saving all that much, says David Miles, chief UK economist at Morgan Stanley.

Time to breathe out? Not so fast. There may be another way in which history is not repeating itself. The ageing of the population and the crisis in pensions suggests that households should be saving more than they are. One reason why they are not is likely to be the rapid rise in housing wealth. A fall in house prices is therefore likely to push up the saving ratio.

A higher saving ratio will knock consumer spending. Capital Economics expects consumption to grow by only 1% next year. The setback to GDP will be less serious: growth will slacken to around 2%. But while the economy may escape the worst, a fall in house prices will still inflict a lot of pain on home-owners.

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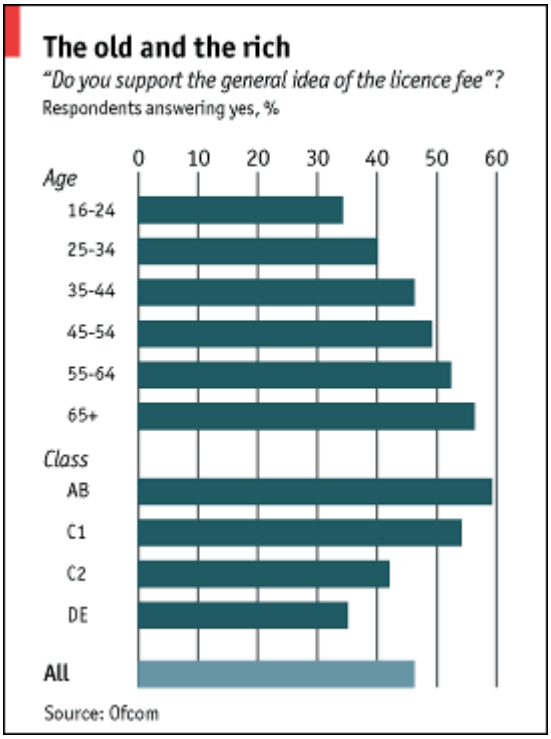
Public-service broadcasting

Competition for the BBC

Oct 7th 2004
From The Economist print edition

The media regulator's radical-sounding new idea



EVERYTHING is changing in British television: viewers are adding dozens of channels to the old suite of five and using personal video recorders to cherry-pick schedules. In eight years' time the whole system will switch from analogue to digital. But amid the upheaval, one thing will remain constant: the government will carry on spending lots of money on public-service broadcasting.

Last week Ofcom, Britain's new media regulator, said in a report on public-service broadcasting that because of digital technology there will be less need in the future for television to be subsidised because the market will provide an ever wider variety of programming. But with strange logic it then concluded that the state's annual expenditure of nearly £3 billion on television must be maintained, and as part of that proposed a new organisation called a "public-service publisher" to compete with the BBC.

So how bothered should the BBC be? Not as much as it would have been by some of Ofcom's earlier ideas. In its first report on the subject, published in April, Ofcom seemed to be leaning towards an economic definition of what public-service television should be, relying on the notion of market failure. That would probably have led to less state funding.

Another daring idea that Ofcom rejected was that a small slice of the BBC's money—it got £2.7 billion last year—should be given to other broadcasters. It worries that Channel 4 and ITV will not be able to make as much public-service television in future as they do now because their advertising revenues are declining as their privileged access to free analogue spectrum becomes less valuable in the run-up to the digital switchover. That could leave the BBC as the only public-service broadcaster, which Ofcom says is undesirable.

But instead of shoring up Channel 4 and ITV with some of the BBC's funds—which the corporation would

have opposed—Ofcom wants £300m of public money to be spent on a new public-service television body. It says the money should come either from a higher BBC licence fee, or direct from the Treasury, or from a tax on broadcasters. In reality, getting it from any of these sources will be hard.

Ed Richards, senior partner at Ofcom and the main brain behind the report, says that British television has been at its most creative when a new entrant—ITV, Channel 4 at its birth or more recently Rupert Murdoch's BSkyB—has come in and shaken things up. His idea is that existing organisations (excluding the BBC and including BSkyB) could bid to set up and run the new body for ten years at a time. It would have its own channel, producing about three hours of new public-service content each day.

So far, the government is responding coolly. One adviser says that the old public-service model using ITV and Channel 4 may be more vigorous in five to seven years' time than Ofcom thinks.

If Ofcom does get its public-service publisher off the ground, the biggest loser could be Channel 4, which is under pressure from a declining audience and the cost of its public-service duties. It is disappointed by Ofcom's conclusions. It will get no public money for the time being and it may also soon face a new competitor. Channel 4 may itself be partly responsible, however: under Mark Thompson, who is now director-general of the BBC, it rejected Ofcom's “top-slicing” idea, saying it preferred its advertising-funded model.

On the other hand, Ofcom has proposed that some income-generating BBC assets be transferred to Channel 4, which would likely mean all or part of BBC Worldwide, its commercial arm. And Channel 4 will compete for, and might well win, the right to operate the new public-service publisher.

For the BBC, Ofcom's report is mostly good news. It will be relieved that the notion of sharing out some of its revenues has disappeared for now. In the future, however, Ofcom says that the government should consider making the BBC supplement its income with limited subscription services. And if the new public-service publisher gets funding, the corporation will find it even harder to justify increases to its own licence fee.

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Racetracks

Scorching profits

Oct 7th 2004
From The Economist print edition

Fed up with congestion? Try a racetrack

Get article background

IT COULD seem like another example of a British industry in decline: China, Bahrain and Qatar are celebrating shiny new motor-racing tracks, while Britain struggles to keep its place in next year's Formula One calendar. Bernie Ecclestone, the sport's tycoon, described facilities at the Silverstone track as “an embarrassment”.

But other business at Britain's 20-odd racetracks is booming, and set to improve further. The big change has been huge growth in events such as track days (when outsiders pay to drive fast cars and bikes), corporate and promotional freebies and outings, club meetings, training classes for drivers, go-carting and even cycling races. As most circuits have strict regulations on noise levels and race-day quotas, these low-decibel activities are a welcome form of business that doesn't upset local councils. They are profitable too: booked conveniently in advance, and with no risk that the public will stay away in bad weather.

Track days in particular have seen a huge surge in popularity, especially for motorbikes, which account for over 70% of business. TrackDays.co.uk, an online booking agency, has seen revenues jump by a third this year. Andy Ibbott, whose California Superbike School has enjoyed 25% growth in revenues over the same period, says that speed cameras and humps have made public roads less fun.

Secondly, insurance premiums on high-performance bikes are now so high that riders are choosing not to register their bikes for the public road and use the money saved for track days. Mr Ibbott also points to the fact that many such bikes are only 15% slower than professional superbikes. Only on tracks can they be ridden anywhere near their limit.

But this kind of business is constrained by the number of days in the year, so the bigger goal is to get spectators back to the potentially much more lucrative race meetings. Attendances on race weekends often fall below 5,000. In the 1970s crowds of 100,000 were common. To reverse that, circuit owners are investing heavily in improving their facilities. Their model is the transformation of football grounds 15 years ago: they too used to suffer from dwindling (mostly male) crowds, terrible food and toilets, little covered seating, and increasing competition from other forms of family entertainment.

Circuit owners are also learning from America, where an average NASCAR rally pulls in over 50,000 people. No track in Britain is attempting this more brazenly than Rockingham, a new American-style banked circuit. This offers seats for all spectators, music between races and fly-pasts by jet fighters. The owners have even paid Paramount Pictures for the right to use the term “Days of Thunder”. The razzmatazz has doubled average attendance to over 40,000. Of these, almost half are families who have never been to a track before.

That is spurring change elsewhere. Jonathan Palmer, a former Formula One driver, bought four tracks in January, including the famous Brands Hatch circuit. Revenues for track-day business are up by 27% this year. Prices are also up: hiring a section of still-tatty Brands Hatch for the day costs over £10,000, twice the cost of the Circuit de Catalunya in Spain, one of Europe's best racetracks.

It's a nice outlook: driving on public roads is less and less fun, while tough planning laws mean there's little danger of competition from new circuits.

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Bagehot

Not drowning—not quite

Oct 7th 2004
From The Economist print edition

When the election comes, the Tories will do better than most people think, but still not as well as they should

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AT LEAST the Bournemouth police don't subscribe to the fashionable belief that the Conservatives are a dying party. Two weeks ago, arrangements for the bumptious Liberal Democrats were rather free and easy; this week, the Tories got the full “ring of steel” treatment. For party activists depressed by the latest poll, which puts them just three points ahead of the Lib Dems, and by the humiliation of coming fourth, behind the United Kingdom Independence Party, in last week's by-election, it was quite nice to be taken seriously by somebody.

Some other good things happened, too. This was the first conference for several years in which there was no plotting against the leadership, and not even much grumbling about it. Michael Howard may not have inspired the nation, but he has restored discipline to his party. Whatever his shortcomings, he is not a figure of fun, as his two predecessors were: it is perfectly easy to imagine him as a more-than-competent prime minister.

Fresh talent seems to be emerging. David Cameron and George Osborne, both recently promoted, are potential stars. There is hope too in Tony Blair's announcement last week that he will step down before the end of a third term. Even though he may manage to preserve his authority, this confirmation of his political mortality has comforted despairing Tories.

It is also dawning on Conservatives that the party's electoral position is not quite as dire as is commonly believed. True, if the current average of the five regular monthly polls (putting Labour on 34%, the Conservatives on 31% and the Lib Dems on 24%) were to be repeated uniformly across the country, Labour would be returned with a majority of 94 (see table), compared with its current 159—which would not feel like a huge advance. But things may turn out better than that.

How the Lib Dems could help the Tories

Seat distribution at next election on basis of current polls*

	Assuming previous tactical voting from Lib Dems to Labour	Assuming no tactical voting from Lib Dems to Labour
Conservatives	179 *(+14)*	196 *(+31)*
Labour	370 *(-33)*	352 *(-51)*
Liberal Democrats	67 *(+16)*	68 *(+17)*
Nationalists	11 *(+3)*	11 *(+3)*
Others	19 *(n/c)*	19 *(n/c)*
Labour majority	94	58

Source: John Curtice *Takes new Scottish constituencies into account

In the past two elections, Labour has benefited from a lot of tactical anti-Tory voting—Lib Dems voting Labour in Tory-Labour marginals to keep the Tories out. But memories of Conservative rule are fading, and in the next election the Iraq war may make Lib Dems less willing to support Mr Blair. According to calculations made by John Curtice, a psephologist at the University of Strathclyde, if that tactical vote unwound, the Tories could gain as many as 39 seats from Labour, while still losing eight or nine seats to

the Lib Dems. If so, Labour's majority would fall to 58, many of the most Blairite MPs would disappear and the prime minister's personal prestige would be damaged.

Lord Saatchi, the party's co-chairman, is even more optimistic. He says that private polling in Labour-held marginals suggests that it is doing better than a collapse in tactical voting alone would suggest. Mr Curtice says that if he is right, and the Tories are up 3% and Labour down 12% in 130 target seats, the Tories would win an extra 95 seats, and Parliament would be hung.

The countryside trap

While it is quite possible that the Tories will confound the most dedicated doom-mongers, Lord Saatchi's optimism goes too far in the other direction. It's one thing for the Tories to benefit from a strong Lib Dem surge; it's another for them to break out from their base vote in the low-to-mid 30s, where they have been stuck for over a decade.

Swing voters may not think much of Mr Blair, but they still like him better than Mr Howard, who they see as far to the right of centre. A generally upbeat conference and a well-crafted, capably delivered keynote speech from Mr Howard will have done nothing to extend the Tories' electoral reach. Among voters in the 18-to-35 age group, they trail in third place. And as a report for the party by Tony Travers of the London School of Economics underlined, in large cities such as Manchester, Newcastle, Sheffield and Liverpool, the party has ceased to exist as a political entity.

Being trapped in the countryside and the suburbs cuts the Tories off from the concerns of the young and the poor, who tend to live in the cities. The usual excuse for losing yet another urban by-election—that it's “not natural Tory territory”—becomes a self-fulfilling prophecy. Typically, the Tories allow Labour to get in first with schemes such as SureStart, designed to help poor children: asked why this is, Tory MPs usually say they just hadn't thought about it.

In the coming general election campaign, the Conservatives will spend around £20m ($36m) in three or four weeks on poster advertising, mailshots and party political broadcasts. They will then be broke and as far from government as before. If Mr Howard wants to be of real service to his party he should spend only half of his war-chest, and leave the rest to recruit an army of energetic agents to rebuild the party's organisation in the cities.

It will be hard, slow work, but unless and until they return to the cities, the Tories will not learn how to talk to people outside the ranks of their usual supporters. The good news for the Tories is that they are hanging in there; the bad news is that, for now at least, that is all they are doing.

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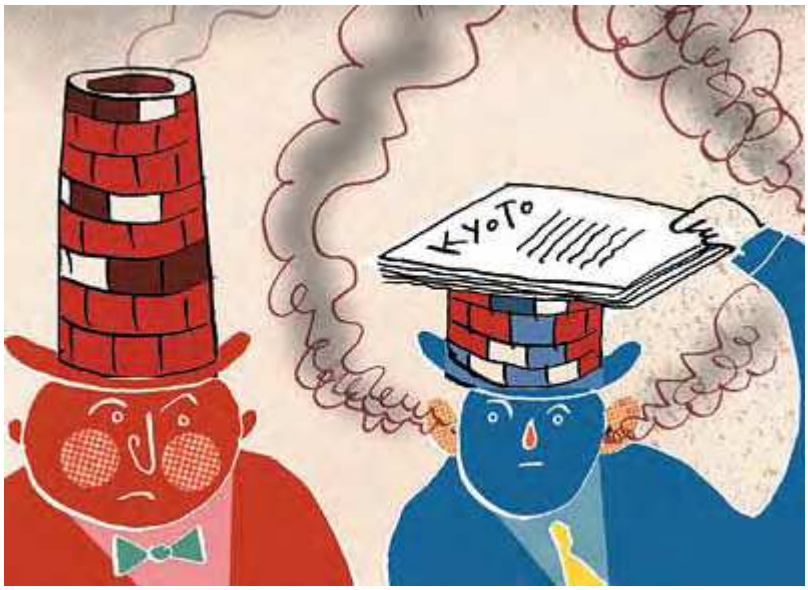
Climate change

Welcome to Kyoto-land

Oct 7th 2004 | NEW YORK
From The Economist print edition



Why European companies may not lose out to their American rivals under the Kyoto treaty on greenhouse-gas emissions

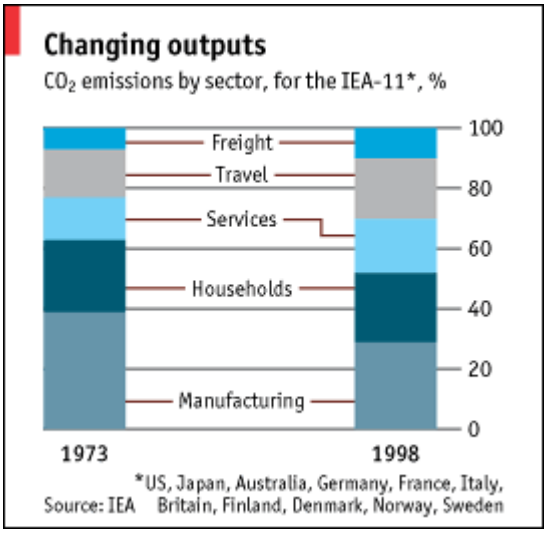
TWO hundred and fifty thousand tonnes of carbon dioxide is an exceedingly tiny amount compared with how much is released by mankind's burning of fossil fuels every day. But consider that those 250,000 tonnes were traded on October 5th as forward contracts on Europe's fledgling market for carbon-emissions credits, and suddenly the number seems more impressive. After all, a few years ago the very notion of carbon trading seemed fanciful. Indeed, that recent daily amount was more than twice the volume traded in the whole month of August.

A big reason for the surge in trading was Russia's decision to ratify the United Nations' Kyoto treaty on climate change. Now, a long-running uncertainty is over. The treaty will soon come into force and remove the cloud that has hung over the domestic rules on carbon emissions that European Union countries have introduced. Industries in most rich countries, notably in the EU, can no longer hope they will ever again be allowed to vent carbon dioxide freely into the atmosphere, as they have done in the past.

That will be good for the atmosphere, but what does it mean for industry? After all, while the manufacturing sector in rich countries has become less carbon-intensive since the oil shocks of the 1970s, it is still the biggest contributor to carbon emission (see chart). Because George Bush confirmed his country's rejection of the treaty in 2001, American businesses are not subject to Kyoto rules. That has led Europe's businessmen to ask with increasing urgency whether firms in Kyoto-land, which also includes Japan and Canada, will suffer against rivals in America and in the often overlooked, but energy-guzzling Australia, which also has not ratified the Kyoto treaty (see next chart).

At first it seems obvious that firms facing a “carbon price” must

suffer a heavy burden compared with rivals that do not. But look closer, and there is reason to think that EU industry may not have such a heavy load to lift after all.



Benedikt von Butler of Evolution Markets, a greenhouse-gas broker, points to one reason not to worry: price. If a firm cannot stay under its government-allocated quota for carbon emissions (and every sizeable EU firm received such a quota earlier this year), then it must purchase carbon allowances at the going price. Following the informal carbon market already under way, pan-EU carbon trading starts next year. A few years ago, observes Jorund Buen of Point Carbon, a European carbon consultancy, most experts had expected businesses to be confronted with a price of €20-25 ($25-31) per tonne. In practice, prices have been a lot lower than that—and they are not expected to rise much above €10-15 per tonne.

There are two reasons for this. The first is the potential overhang of “hot air”. Russia was given an over-generous allowance of credits, to persuade it to join the treaty. Some worried that it would, over time, depress prices on the EU market. In fact, self-interest will discourage this: the Russians do not want a price collapse. Indeed, argues Mr von Butler, they are more likely, eventually, to join Ukraine and Bulgaria in a cartel to try to prop up prices. The most likely outcome, reckons David Victor of Stanford University, is that overhang of Russian credits will allow EU governments to use the hot air as a “safety valve” to ensure the long-term price of EU carbon credits does not rise much above €10. The second reason is that, despite all the rhetoric, the EU is doing rather less than it appears on climate, and America rather more.

Europe has all the regulations of Kyoto in place, but the straitjacket on industry is pretty loose. When the national allocation plans for carbon were issued earlier this year, the greens complained that they were toothless and amounted to “business as usual”. Industry had successfully lobbied EU governments not to hobble its competitiveness. And in America, where Mr Bush has unshackled corporations from Kyoto, many industries are confronting a carbon challenge nonetheless and, in some cases, making voluntary cuts.

One example is DuPont, which has slashed its emissions of greenhouse gases (which include gases other than carbon dioxide) by a breathtaking 65% compared with its 1990 levels. One reason has been to gain favourable publicity. But multinationals like DuPont are convinced that carbon constraints are coming anyway in America, and they want to make global preparations. Since they have operations inside Kyoto-land, many are pursuing low-carbon strategies at home, even in the absence of regulation.

There is also a grassroots rebellion taking place in America. Many states have, in defiance of the Bush administration, introduced carbon restrictions. States in New England have imposed curbs on carbon emissions from power plants, and are developing a common trading system for emissions with Canada's eastern provinces. California has the nation's first law limiting greenhouse-gas emissions from cars. New York and others may adopt similar rules.

So, Kyoto need not place a carbon millstone around the neck of Europe's businesses. Indeed, even concerns about developing countries stealing a competitive edge may be overblown. China, which has no obligations under the treaty, is imposing de facto constraints on local industry through seemingly unrelated policies such as tough new fuel-efficiency laws for cars.

European economies might even gain some advantages. Anthony Hobley of Baker & McKenzie, an

American law firm, argues that Britain's early embrace of the Kyoto protocol gives it a chance to dominate a sector that benefits: the legal profession. “English law is likely to be the major legal system of this new international market. The fact the US has ruled out ratifying Kyoto takes New York law out of the running for the time being.”

Another sort of edge lies in the pan-EU trading system. It formally covers 25 countries, but may set the global standard. Already, notes Mr Hobley, Norway, Switzerland and Canada have had formal discussions about linking to the system. Japan, a Kyoto signatory, may also announce a linking scheme. Most intriguingly, rumours suggest that California might unveil a carbon-trading system in December—and it too might be linked to the European scheme.

Despite all the rhetoric, the EU is doing rather less than it appears on climate, and America rather more

The emerging carbon market already feels more like the dizzying early days of Silicon Valley than the state capitalism of Europe's past. Jos Delbeke, of the European Commission, certainly sounds more like a free marketeer than a Eurocrat: “We have created a new currency, the carbon allowance, but only the market can set its price.” The commission has already chastised eastern European governments for over-generous carbon allowances, which it insists add up to unfair state aid.

The emerging carbon-emissions industry in the EU counts dozens of small and medium-sized consulting firms, technology start-ups and the like. The big accounting firms are scrambling to train “carbon accountants”, and venture capital is pouring into clean energy. London is quickly emerging as the carbon-finance capital. It is home to Climate Change Capital, the first merchant bank dedicated to carbon issues, and the Carbon Trust, an innovative public-private partnership that aims to boost clean energy, in part by funding promising technologies considered a little too risky for private financiers.

If any industry should be hostile to Kyoto, then it should be energy. Yet in 1997, Lord Browne, the boss of BP, the world's second-largest oil company, broke ranks and called for action on global warming. Hoping to encourage a market-friendly approach by the EU, he vowed that his company would reduce its emissions to 10% below 1990 levels by 2010. He turned to Environmental Defence, a market-minded green group that helped design America's successful sulphur-dioxide trading system. Together, they implemented a cap-and-trade carbon scheme for BP's various divisions worldwide.

The result? The firm met its targets eight years ahead of schedule through a combination of higher efficiency, new technology and better management of energy. Most impressive, Lord Browne explains, is the price tag: “We've met it at no net economic cost—because the savings from reduced energy inputs and increased efficiency have outweighed all the expenditure involved.” The costs of tackling climate change, he concludes, “are clearly lower than many feared. This is a manageable problem.” By embracing Kyoto, the EU might just have given its businesses an edge in the race towards clean energy.

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Shipping

Hudson's warmer bay

Oct 7th 2004 | TORONTO
From The Economist print edition

Less ice means new transport opportunities

ABOUT now, the polar bears arrive near the Canadian port at Churchill to await the winter freeze. Then they will walk north across the ice of Hudson Bay towards the Arctic. It was -6º C this week at the port, although a warmer world means the ice comes more slowly these days. That is bad news for the polar bears, but good news for shipping.

Global warming means Hudson Bay is now open to shipping an extra week a year. Some scientists predict that as soon as 2010 there could be a regular shipping service during the summer in the Arctic, and that by 2050 there will be a year-round sea passage to Hudson Bay.

This year the ice-free season started on July 28th. The last ship will leave in early November. The ships coming to Churchill, 1,700km (1,057 miles) north of Winnipeg, save on fuel since it is closer to ports in Europe. Churchill to Antwerp is just eight days' sailing.

Louis Dreyfus, an international trader, believes its Canadian grain operation will benefit from a combination of ice-reinforced ships and warmer weather expanding the shipping season from the first week of July until past the middle of November. Grain is just about the only cargo shipped out of Churchill, and the ships arrive empty. But there are plans to change that.

The port and the railway, which provides Churchill with its only land-link to the outside world, were bought in 1997 by OmniTRAX. This Denver-based company owns a number of “short line”, or industrial, railroads—although the Hudson Bay Railway is hardly short at 1,303km. OmniTRAX has made a go of a port which the Canadian government was thinking of closing and wants to get annual grain shipments up to 1m tonnes. This year it might reach 600,000 tonnes, although a weak harvest on the prairie could reduce that. The company also wants to handle imports.

This is where Russia's ambassador to Canada, Georgiy Mamedov, comes in. He is trying to revive the idea of a “Murmansk to Manitoba” cross-Arctic shipping corridor. His vision: liquefied natural gas from Russia shipped to North America via Churchill. If the ice does melt, freighters could cut across water that was once permanent ice. At first, icebreakers would be needed. And if not, Mr Mamedov says: “Commission nuclear submarines. We are no longer in a confrontational state, so they can be used for peaceful purposes.” Those hardy tourists who venture north to see the polar bears shiver at the prospect.

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Airbus and Boeing

America flies to war

Oct 7th 2004
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The long-running row over subsidies to Airbus and Boeing has gone to the World Trade Organisation

AP

Your subsidy is bigger than mine

THE rumbling of a trade war over state aid to Europe's Airbus has been in the air for months. On October 6th, after unsuccessful talks between the European Union and America, the United States Trade Representative, Robert Zoellick, filed a formal complaint to the World Trade Organisation (WTO) alleging that billions of dollars of "unfair" subsidies were paid to Airbus. Within an hour, the EU said that it would file a counter-claim over equally large sums of unfair aid going to Airbus's rival, Boeing.

Boeing has been smarting ever since Airbus snatched the lead in the civil jet market last year by delivering more aircraft for the first time. Airbus is still in front this year, with 224 deliveries to the end of September, compared with Boeing's 218. The Americans' beef is that Airbus, which is 80% owned by EADS, a European aerospace group, and 20% by BAE Systems, still gets soft loans from the governments of Germany, France, Britain and Spain.

This finance comes in the form of repayable loans, known as launch aid, for the development of new aircraft. Some $3.7 billion of it enabled Airbus to launch its new A380 super-jumbo, which will eclipse Boeing's venerable 747 when it enters service in 2006. Boeing complains, quite reasonably, that nowadays Airbus is a profitable, successful company and as such should no longer receive this help.

An earlier trade row was settled in 1992 with a bilateral agreement that limited Airbus's launch aid to 33% of the development costs of a new plane, while indirect support to Boeing (from the Pentagon and NASA) was restricted to 4% of its turnover. Now Boeing and the American government want to replace that deal with a new agreement that bans all state aid.

Boeing's chief executive, Harry Stonecipher, has been itching to have a go at Airbus. He was brought out of retirement at the end of last year to run the company after it lost its two top executives in a row about improper dealings with the Pentagon over defence contracts. Previously, as number two at Boeing, he was always pushing for a more aggressive line against Airbus subsidies.

But there is more to it than that. First, the Bush administration is being attacked for the loss of manufacturing jobs, and Boeing's home base for its civil jets is around Seattle in Washington state, a key battleground in next month's presidential election. And Airbus is likely to come up with a new aircraft that could spoil the market for Boeing's latest product, the 250-seater 7E7. The Europeans plan to unveil such a rival, dubbed the A350 for now, before the end of the year.

According to Boeing, Airbus can only make such rapid moves in the marketplace because it can count on launch aid. Mr Stonecipher points out that the European company has been able to roll out five new products in the past decade, while Boeing, with an eye to shareholders and its bottom line, has managed one.

It is true that the big attraction of state-provided launch aid is that if a product flops, the money does not have to be repaid; so the risk is borne partly by European taxpayers. But Airbus now has to continue paying royalties long after the loan and interest have been repaid. Nor is it clear whether Airbus will ask for launch aid for its new plane, since it is basically a new version of an existing wide-body model, the

A330-200.

Motes and beams

The odd thing about the timing is that Boeing's newly aggressive approach emerged only after it was revealed that it had learned a trick or two from Airbus about landing subsidies. It persuaded the state of Washington to provide a tax break worth, according to the State University of New York, Buffalo, $3.2 billion. This was in return for doing the final assembly of the new 7E7 in its home state. It hawked the project around alternative sites and Kansas came up with an interest-free bond worth $200m to fabricate noses and cockpits. And the Italian government is putting up a subsidy worth $590m for the manufacture of the rear fuselage by its partly owned aerospace firm, Alenia.

But the grandaddy of aid going to Boeing comes from Japan. This emerged last November when Airbus persuaded the EU to investigate a $1.5 billion subsidy that the Japanese government is, in effect, putting into the 7E7. A consortium of three companies, the heavy industry parts of Fuji, Kawasaki and Mitsubishi, will make the wings and fuselage wing box for the 7E7. This is the heart of any plane, and the fact that Boeing has decided to outsource it to the Japanese is highly significant.

Boeing has always resisted Japanese requests to get their hands on important aircraft-making technology in return for Japan's airlines buying from Boeing. But to win a big launch order for the 7E7 and get financial help, it has had to let the Japanese become key suppliers. All this makes for a tangled web of claim and counter-claim for the WTO to get to grips with, even before it affects other trade issues.

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Medical tourism to India

Get well away

Oct 7th 2004 | DELHI
From The Economist print edition

India wants to become an upmarket health-care destination

So, this is where he packed his toothbrush

FOR someone about to undergo surgery to remove gallstones, David Potter, a 63-year-old Briton, is remarkably chipper. Pushing a walking-frame he hardly seems to need, he testifies to the success of an earlier operation, to replace a hip. Both are standard surgical procedures. But Mr Potter, who lives in England, went under the scalpel in the Apollo hospital in Chennai (formerly Madras) in southern India.

In satisfied customers such as Mr Potter, willing to travel thousands of miles to secure treatment sooner or more cheaply than they could at home, Apollo and other Indian health-care providers see a huge commercial opportunity. A study by the Confederation of Indian Industry (CII), a business lobby, and McKinsey, a consultancy, has estimated that “medical tourism” could bring India an additional 50 billion-100 billion rupees ($1.1 billion-2.2 billion) in annual revenue by 2012.

Mr Potter had been waiting nine months for his hip replacement from Britain's National Health Service (NHS). He had another three months to go. A private operation in Britain would have cost about £10,000 ($18,000). Then he heard that it could be done in India. After a spot of research on the internet, he was in Chennai. The gallstones, undiagnosed in Britain, were an added bonus. The total cost of his four-week stay was about £6,000, not including the airfare. Similarly, Anil Maini, of Escorts, a cardiac-care specialist with 16 hospitals around India, says his group can offer bypass surgery at one-third the cost of a private operation in Britain.

Britain and Canada have suffered from overloaded health systems, producing long waiting lists. And, as Prathap Reddy, founder of Apollo Hospitals, puts it, if you wait six months for a heart bypass you may not need it anymore. Dr Reddy is a cardiologist as well as a health-care entrepreneur running a group that has five hospitals in India and one in Sri Lanka.

According to rough estimates, India attracted about 150,000 medical tourists last year. In the international market, it lags behind Thailand, which attracted as many as 1m last year. This week a delegation from the CII was in Bangkok, trying to build links and learn more. Many of those going to Thailand come from Asia and are seeking general medical treatment, sometimes not available in their home country. Most of those arriving in India come from poor countries. Last month, for example, 12 beds in Apollo's Delhi hospital were filled by senior members of Bangladesh's opposition. They were receiving treatment, such as skin grafts, for injuries suffered when their party's rally in the capital, Dhaka, came under grenade attack. In another wing are 15 Tanzanians, staying at that government's expense.

India looks well-equipped to compete for business in rich countries too, and in November it will launch an international advertising campaign. It has large numbers of well-qualified doctors. There is also a large overseas population of Indian origin—nearly 1.5m in Britain alone—who might combine treatment with a family visit. Harsh Srivastava of the CII says that since India is well-qualified and cheap in every aspect of health care, from new-drug discovery and testing to surgery, the obvious solution is for rich countries to outsource their medical needs.

Dr Reddy has a number of ideas to further that process. Apollo intends to open some “tele-medicine” booths in Britain, where family doctors can consult specialists in India, and, eventually, refer patients to them. He is in talks with hotel groups to offer packages of hospital treatment followed by a few days at the beach.

Besides what Dr Reddy calls “disease management”—joint replacements, heart bypasses, cataract operations and so on—there are big opportunities in elective treatments such as in-vitro fertilisation or cosmetic surgery. India already has a “health tourism” business offering yoga, massages, traditional ayurvedic medicine and other self-inflicted punishments.

Dr Reddy also talks of charter flights for medical tourists with doctors and nurses on board. But it may take some time to build up demand on that scale. Rich-country health providers are unlikely to adopt flying patients to India as a strategy. Dr Reddy says that efforts to persuade Britain's NHS to lift its limit of three hours' flying time for destinations to which it will refer patients have “hit a roadblock”.

It would be hard for the NHS to be seen carting patients off to a “third-world” country. And, for all its excellent facilities and staff at hospitals like Apollo, India still suffers an image that makes it hard to compete with other Asian countries.

India's poverty makes even some Indians squeamish about medical tourism. The country has only 51 doctors for every 100,000 people, compared with 279 per 100,000 in America. But in the long run, medical tourism, like software exports, brings money into the country and may ease the lot of India's poor, who have little access to health care. In the short run, however, medical treatment is both more easily understood and more transferable than software, and envy is harder to avoid.

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PeopleSoft

The founder returns

Oct 7th 2004 | SAN FRANCISCO
From The Economist print edition

But can the new (and old) boss save PeopleSoft from Oracle?

QUITE apart from any awkwardness in the way he handled the hostile bid by rival Oracle for the firm he was running, Craig Conway seems to have been an unpopular chief executive of PeopleSoft, a large enterprise-software company. Three managers who reported directly to him were apparently close to resigning in frustration, and the board was unhappy about “mis-statements” he made to analysts. So even though there was no “smoking gun”, as the board put it, Mr Conway was fired on October 1st and replaced by the firm's founder, David Duffield.

Mr Duffield is probably as close to Mr Conway's opposite as one can get. “Dave is loved,” raves a PeopleSoft spokesman. “He is an icon around here.” Indeed, Mr Duffield not only excels at people skills and the softer side of management (which may be why, in 1987, he called his company PeopleSoft), he has also adopted several children and started an animal-rescue foundation. A joke at PeopleSoft's offices in Pleasanton, California, has it that he wears shorts to work, while the uptight Mr Conway wears them to the bathtub.

Mr Duffield's brief is now to address Mr Conway's perceived shortcomings and his obsession with fending off the $7.7 billion takeover bid from Oracle, which happens to be run by Larry Ellison, who was once Mr Conway's boss and whom Mr Conway dislikes. At the same time, says Paul Hamerman of Forrester, a research firm, Mr Conway offered no compelling technological vision for PeopleSoft, and seemed deaf to “quite a noise level of customer complaints”. Mr Conway's firing prompted much speculation that PeopleSoft might now be more prepared to negotiate with Oracle rather than fight it. But PeopleSoft insists that both Mr Duffield and the board are still opposed to the offer, and that his focus is on a long-term strategy for the company, not a quick sale.

On the same day that Mr Conway was fired, however, Oracle scored another victory when America's Justice Department said that it would not appeal against a judge's decision to allow the takeover on antitrust grounds. So, this week, the battle moved to another courtroom, in Delaware, where both companies are registered. In this suit, Oracle is claiming that PeopleSoft is not properly looking after the interests of its shareholders by using a “poison pill” and a “customer assurance programme” to keep Oracle at bay.

The poison pill is a very common provision, and one that PeopleSoft has had for almost a decade. It floods the market with new shares if a predator buys more than 20% of PeopleSoft's equity, thus making an acquisition very difficult. The customer-rebate programme, by contrast, was put in place last June. It guarantees that any PeopleSoft client can get a refund for between two and five times its software-licence fee if support for that software is ever cut off. To Oracle, this represents another dirty tactic, since it amounts to a potential liability of more than $2 billion. To PeopleSoft, however, it was not only fair but necessary to retain customers, since Oracle said at the time of its bid that it planned to kill PeopleSoft's products and switch clients to its own.

The two companies' lawyers are likely to be at it for another few weeks, which could yet see a higher bid from Oracle, or perhaps from some other “white knight”. While the fight continues, however, at least PeopleSoft can now argue much more credibly that the interests of its shareholders will be paramount. Mr Duffield, after all, is one of the largest of them.

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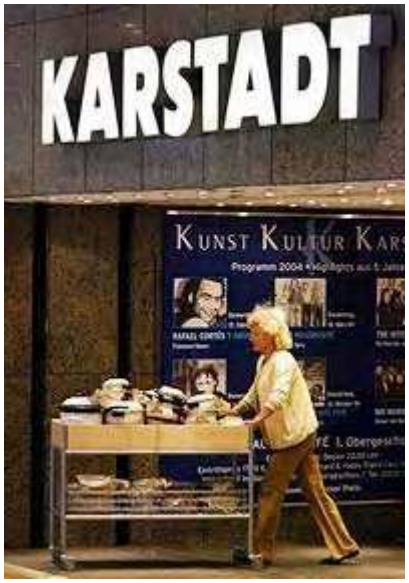
European retailing

Trouble in store

Oct 7th 2004 | FRANKFURT
From The Economist print edition

KarstadtQuelle, a giant German retailer, is in trouble

AP



In need of retail therapy

EUROPE'S biggest department store and mail-order chain, Germany's KarstadtQuelle, has announced a drastic restructuring, which may involve the sale or closure of 77 smaller stores and the disposal of other outlets specialising in clothing and sports equipment. But this might be too late to stave off a fire sale. Karstadt is trying to refinance quickly, but even the €1.7 billion ($2.1 billion) it expects to obtain from banks and the €500m it hopes to raise from a rights issue may not be enough.

When Christoph Achenbach, Karstadt's chief executive, hinted that the alternative to the restructuring plan might be insolvency, it caused an outcry amongst politicians and the public. In Germany, department stores are still icons of the inner city, despite the success of suburban discounters, such as Lidl and Aldi. The threat that one of two big chains might disappear was met with concern about the loss of jobs and the atrophy of inner cities.

“This is not a problem of department stores,” argues Hans-Joachim Körber, head of Metro, which owns Kaufhof, the other big chain. He says sales in Germany have been static for the past decade, so the battle is for market share. Karstadt failed to restructure and had distracting adventures in other businesses, such as golf and coffee shops. It also ignored the need to expand in growth markets abroad. Some 80% of KarstadtQuelle's turnover is still in Germany, while at Metro it is closer to half.

According to some critics, Mr Achenbach himself is part of the problem. He ran the mail-order businesses before becoming chief executive in June. On his watch, the managements of Quelle and Neckermann, two separate and profitable operations, were merged into a loss-making mess. By concentrating on internet orders instead of catalogues, especially in foreign markets, Mr Achenbach hopes to undo the damage.

But time is short. Karstadt's banks want a deal on restructuring to be reached with the workforce and their union as early as next week. Thomas Middelhoff, chairman of the supervisory board since the end of June, has tried to quicken change. He also favours capital-market solutions; he was forced out of running Bertelsmann, a family-owned publishing group, when it rebutted his ideas for a public listing. He is a partner of Investcorp, a private-equity group, but he rules out its involvement. Karstadt is listed, but the Schickedanz family, which founded Quelle, owns 42% of the shares and would be the key to any takeover discussions. Other investors may be waiting in the wings.

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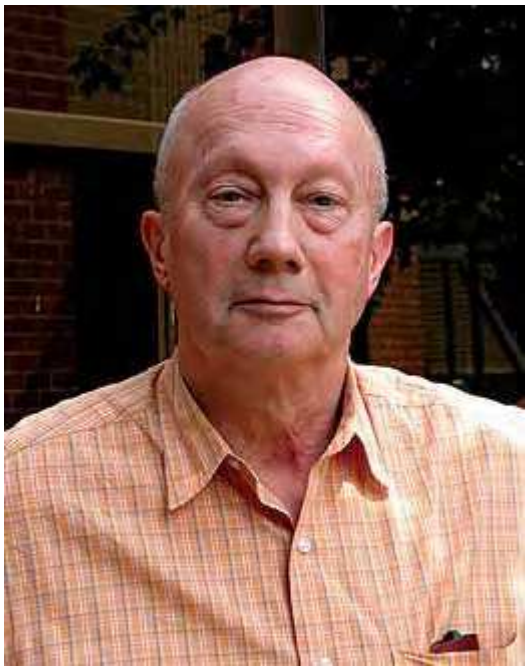
Face value

Well endowed

Oct 7th 2004
From The Economist print edition



Phil Harvey sells sexual excitement to the rich, then helps the poor

STROLL down the dusty streets of Awasa, a town in southern Ethiopia, and you might find a billboard advertising condoms with the catchy slogan: “Value your life! Superior protection.” Were you driving along a highway in Toronto, Canada, you might have seen another poster, this one showing a middle-aged woman peering down into her husband's glowing boxer shorts with the cheery message: “Put a party in your pants!” The sexual pleasures of the rich may seem a far cry from the family-planning and AIDS-prevention problems of the African poor. But both the ads and the products they promote are intimately connected through Phil Harvey.

Mr Harvey is both one of the world's leading purveyors of “adult entertainment” and a big supplier of contraceptives to the developing world. His PHE group, which includes Adam & Eve, America's biggest mail-order and online retailer of sexual toys and pornographic films, is a market leader in an industry which some estimate to be worth more than $10 billion a year. Yet as president of DKT International, he also leads a non-profit group that specialises in distributing condoms, pills and other forms of birth control in some of the poorest parts of the world.

With his penchant for a tweed jacket and tortoiseshell glasses, Mr Harvey can look more like an academic than a sex magnate. Perhaps this is not surprising, given his firm's origins. In the late 1960s, he studied at the University of North Carolina with Tim Black, now head of Marie Stopes International, a reproductive-health agency. They both did masters degrees on non-medical ways of promoting family planning: in particular, they sold condoms to students through the post, even though marketing such “obscene” items by mail was illegal at the time. They decided to try similar techniques in the developing world and pioneered Population Services International (PSI), which is now the world's biggest organisation for so-called “social marketing”. This involves using commercial techniques to persuade people to do something that is good for them. Mr Harvey founded DKT in 1989 to work along similar lines—in this case providing contraceptives at knock-down prices, with the help of subsidies from governments and private foundations.

Adam & Eve, which grew out of Mr Harvey's mail-order condom business, sells some $70m-worth of films and goods a year—including such products as the Scorpion Double-Shaft Probe (don't ask) and the Pussy Enhancer. It has its own brand of sex toys and spends around $2.5m annually making some 75 pornographic movies, including notable hits such as “Rawhide” and “Stud Hunters: A Hard Man is Good to Find”. The firm sends its videos and books to licensed sex therapists for review and, says Mr Harvey, anything that smacks of coercion gets “zapped”.

The success of Adam & Eve helps Mr Harvey's philanthropy. He ploughs around $2m of his annual profits from the company into DKT. With a total budget of $31m, DKT distributed 348m condoms and 29m oral contraceptives in Africa, Asia and Latin America last year. DKT does this with a keen eye for branding and advertising, using any available channel, from pharmacies and kiosks to brothels and bars, to get products to people. Mr Harvey says that rather than donating contraceptives it is better to market and sell them—even if only for pennies. This brings lots of shopkeepers and others into the distribution network, and it also means customers are more likely to value—and therefore use properly—something they have paid for.

Few Adam & Eve customers realise that a proportion of their spending goes to promoting contraception in poor countries. The company once made the link in its marketing, but says it did not make any difference to sales. The philanthropic connection does motivate some employees, however. Indeed, for all the sex toys on desks and steamy posters on the wall, there is a strangely un-erotic atmosphere at the firm's headquarters, located beside an old-people's home in suburban North Carolina; even *The Economist*'s offices seem more sexually charged.

Selling sex is becoming a tougher proposition and Adam & Eve has seen its sales flatten in the past three years. The business is also changing, along with buyers. A third of the company's 4m customers are now women, up from about a fifth five years ago. To tempt them, Adam & Eve has introduced home “Temptations Parties”—a bit like Tupperware nights, only with vibrators. It is also exploring the idea of franchising branded stores.

Liberty and the pursuit of happiness

The biggest challenge facing Mr Harvey's adult-entertainment business is, in part, of his own making: the emergence of new competitors. He is famously libertarian and has long fought against censorship. His first big battle came in the 1980s when the Department of Justice raided Adam & Eve and prosecuted the firm in several states for selling obscene material. Mr Harvey spent eight years both defending himself and suing the federal government for harassment and violation of free speech. In this way he helped to win the adult entertainment business more freedom, which has been good not only for him, but also for his competitors, although prosecutions in the industry go on.

Now another sort of battle looms. The public-health side of Mr Harvey's business has become more controversial because of the Bush administration's conservative views on sex and condoms. Last year Mr Harvey resigned from PSI's board after a flap broke out over his presence on a body that was in receipt of substantial government overseas-aid contracts. He laments that newly illiberal policies are “increasing contempt for America abroad”. And he has broadened the scope of his fight for free speech and individual choice. Another of his targets is America's war on drugs, a conflict he says represents a greater threat to civil liberty than the war on terror. Might a mail-order cannabis business be next on his list of ideas?

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Correction: Expedia

Oct 7th 2004
From The Economist print edition

Apologies to Expedia. In last week's story on online travel (print edition only) we mistakenly relegated it from its position as market leader. Cendant's merger with Orbitz puts that group in second place in the business.

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Non-food GM

The men in white coats are winning, slowly

Oct 7th 2004
From The Economist print edition

The non-food use of genetic modification is moving ahead on several fronts. But it still has obstacles to overcome, and far to go

Get article background

IF YOU are a stay-at-home European or Australian, it is quite possible that never, knowingly or not, have you eaten any genetically modified (GM) product. But, unknowingly, you may well be wearing one right now: GM cotton is widely grown. And you may have been treated with a drug produced with the use of GM. Wide public support has enabled anti-GM zealots to win battles on the food front in Europe and elsewhere; and fear of losing trade deters GM in other countries that grow and export the stuff, even if they would readily eat it themselves. Yet, overall, the enemies of GM are losing the war.

That might sound unlikely: this year's big GM news was not an advance but an inglorious retreat. Monsanto, an American agri-business that is the main commercial promoter of the technique, and thus the arch-villain for its enemies, decided not to bring its GM wheat variety to market, not even in the largely GM-tolerant United States. But food is a special case. It is easy to shout “Frankenfood” and scare someone into taking no risks, real or imagined, with his bread or burgers; not so easy with his shirt. However the war may go in the supermarkets or cattle feed-lots, the non-food uses of GM technology have ensured that the technology is here to stay. And those uses are steadily multiplying.

At the microscopic level, bacteria are routinely modified to produce enzymes for use in industrial processes. Cotton is so far the only widespread non-food GM crop. But others are on the way. Researchers are modifying potatoes, even trees, to suit the paper industry; GM oilseed rape (canola) can make better detergents or lubricants. Sheep can be altered, as Australian scientists have done, to grow more and better wool (though not yet, as one American website spoofed, wool so tungsten-rich that it works as a filament in light bulbs). Both plants and animals can be altered to produce pharmaceuticals; the resultant “bio-pharming” is still in its infancy, but its commercial day will come.

And a huge new use for GM crops is already under way. To produce bio-fuel or bio-plastics, made from maize or sugar, say, rather than petroleum, you don't need a GM “feedstock”, but why not? The exhaust is not going to spray out deadly footloose Frankengenes (or any genes at all).

Not that the way ahead is clear. The spread even of non-food GM will be affected by the vagaries of public perception. You may be happy to fill up with GM-derived fuel, but remain uneasy about GM food. If so, anti-GM militants argue, you must say no to both: whether it goes into your mouth, into the steer

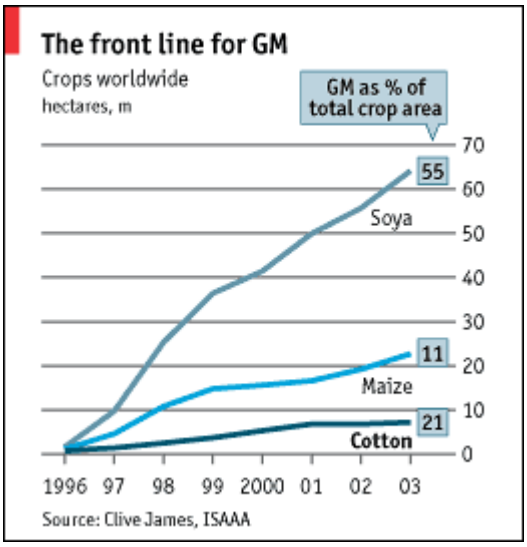
that ends as your beefsteak, or into your petrol tank, GM maize is grown in fields not far from non-GM maize, and may “contaminate” it. So stop the lot. And, good science or not, that is a real commercial argument: one may think the fear of non-food GM crops quite irrational, but if lots of consumers do fear them, the most cynical farmer may be entirely rational not to plant them.

Applied to cotton, that argument has plainly carried little public weight. Cottonseed oil is in fact eaten, notably in margarine, but few people associate cotton with food. No such luck for any sort of grain. The argument will surely affect bio-fuel projects in Europe: such fuels may be acceptable, but not GM-based ones.

Yet, whatever the uncertainties, non-food GM is indeed going ahead, for all the propaganda against it, some solid, some arguable and some fictitious. It is quite true that Monsanto's GM seeds cost more than others, and that it tries to keep a grip on the use and supply of them; too tight a grip, say those who speak for third-world farmers. But it is not true, for instance, that its (or other people's) pest-resistant GM cotton has lower yields. A recent study in western India reported significantly higher ones. And, yield apart, quite certainly this cotton can bring higher profits, because it needs far less spraying. A Chinese study of two cotton-growing provinces in 2001 estimated savings of $250 per hectare (2.5 acres) in labour and insecticide—which, by the way but not by chance, also means far less poisoning of farmers by sprays.

The best answer to those who doubt GM's practical benefits comes not from researchers but farmers. On one (pro-GM) estimate, in 1997 the world grew 1.4m hectares of GM cotton; last year, 7.2m ha. In America, which introduced it, by now 75% of cotton is GM. China authorised its commercial planting only in 1997; by 2001 there were 1.5m ha, 30% of the cotton area; last year 2.8m ha. India, the world's biggest cotton-grower, began with GM cotton only in 2002, and in 2003-04 planted less than 100,000ha. But in the new season that figure would treble, predicted a Monsanto joint-venture that already sells $12m a year of seed there. The actual spread may well have been even faster.

In all three countries, those figures are the result of choices made by farmers, not by bureaucrats or supply companies. The anti-GM notion that third-world farmers have to be arm-twisted or deceived into GM planting is nonsense. If they can measure the results in renminbi or rupees, farmers will embrace GM.



So much for the notion that the only real gainer from GM crops is wicked, multinational Monsanto. In fact, on the seed-supply side, it has rivals. Swiss-based Syngenta, its big European competitor, is moving into GM cotton, through a deal signed in August with Delta and Pine Land, an American market leader already offering Monsanto versions. Though mostly under licence from Monsanto, its Indian competitors have recently produced GM cotton varieties of their own. China's Academy of Sciences developed its own varieties in the mid-1990s, and now offers more than 20, adapted to varying climatic or soil needs.

The low-down on Roundup

Nor yet is it true that the whole thing is really a plot to sell Monsanto's Roundup herbicides, by hooking the farmer on crops modified so they can be safely sprayed with Roundup, but with nothing else. That may sound plausible of soya, the world's main GM crop, which is nearly all modified to be herbicide-tolerant. Similar GM cotton varieties indeed exist. But the main GM cotton is Bt cotton, named after a tiny bug, *Bacillus thuringiensis*, whose insect-fighting properties have been transferred (to several crops besides cotton) not to sell more herbicide, Roundup or any other, but to require less pesticide.

What is notable about GM cotton is how little has been altered. The sundry GM varieties are built to aid farmers, not textile mills. Resistant to pests, herbicides or both, the result is still cotton. Here is just a new way of producing the stuff.

But many other GM ideas, in the pipeline or farther off, will alter the product, as old-style breeding does. There will be no tungsten sheep-fleece, but sheep in future will grow not just more wool, but softer wool. Old flowers will get new colours or scents: a Melbourne company has already released purple GM carnations; in Indiana an academic is at work on the scent of roses. Lawn and golf-course grass will be

tougher, trees more resistant to drought, or adapted to clean up contaminated soil.

Other shifts are already producing “the same old stuff”, but in novel ways. Pigs or indeed potatoes can produce human proteins for medical use (though none has yet received authorisation), foot-and-mouth vaccine can come from alfalfa, genes from enzyme-making bacteria can do the same job in tobacco, and useful new enzymes can be found and put into old bacteria. Researchers see few limits, other than human timidity, to how far they can go.

The paper industry illustrates the diversity of GM. Its basic raw material is trees. Researchers in New Zealand and Chile have produced pest-resisting pines. Oji Paper, a Japanese giant that uses fast-growing eucalyptuses from South-East Asia, has put carrot genes into them so they can flourish in acid soil. But GM can go further. Trees contain not only the cellulose that papermakers want, but lignin—crudely, the stuff that makes a tree a tree—which they don't. Separating the two is costly; how nice to use trees that start off with less lignin. They can be created. Researchers at the State University of North Carolina have bred aspens with only half the lignin of ordinary ones—and, it turned out, they have the additional advantage that they grow faster. Do not expect Canada or the Nordic countries to be shortly covered with GM pines; commercial use of GM trees in Europe is at least ten years off. But it is on its way.

Likewise with starch. Papermakers use it—several tonnes are required per 100 of finished paper—both to bind the pulp fibres together and to “size” the surface, so you can print on it. In Europe and North America, the starch often comes from potatoes. But spuds produce two kinds of starch: amylopectin, which papermakers like, and amylose, which they dislike. In the 1990s the world leader in potato starch, AVEBE, a Dutch co-operative, developed a GM potato containing more amylopectin, less amylose, but was thwarted by the European Union, which forbade its marketing. AVEBE is now growing a new version, though it will be years before it can reach the market. Through a Swedish subsidiary, BASF, a German chemicals giant, also has created a high-amylopectin GM potato. The Swedish authorities gave permission for an experimental plot in 1999, and last April for large-scale planting. The company would love to grow its potato elsewhere in Europe. But the EU's consent is still required and that has not yet been forthcoming.

Nor need potatoes be the only source of engineered starch. The world grows 190m tonnes a year of cassava, nearly all for food or animal feed. But its starch too can go into paper, and in Thailand a little already does. That could become a lot: Thailand grows enough cassava to be the only significant exporter, and recently decided to allow commercial GM crops. If public fears of GM food and “contamination” can be overcome, cassava could be one.

The whiff of fear

Those fears have already affected tobacco. It is a “halfway house”: cigarettes are not eaten, but they are consumed. Tobacco has in fact already been genetically modified, both to produce more nicotine and less. The now-vanished high-nicotine cigarettes landed their maker, Brown & Williamson, with a (failed) lawsuit from America's Food and Drug Administration. Today's low-nicotine GM ones just do not sell very well: Vector, which makes them, recently put on hold plans for a nationwide roll-out.

Neither outcome had much to do directly with GM. But growers of ordinary tobacco hate Vector's GM smokes; partly, although they will not admit it, because “low-nicotine” is hardly their favourite slogan, but also, as with food crops, for fear of contamination and consumer reaction, even though Vector grows its GM weed outside traditional tobacco areas.

Not least, ordinary growers fear for their exports and, as with food, they may be right. In the 1990s China was the first country to grow GM tobacco, aiming to improve the crop's resistance to viruses. Within a few years, foreign pressure forced it to cry off. Doubts in Europe will deter both European and other growers and processors. SEITA, as France's cigarette monopoly was then called, was once authorised to do research on GM tobacco, but made little commercial use of the results.

What about bio-pharming, for which tobacco is well suited because it produces lots of leaf and has been much studied? This prospect arouses fewer fears—at least in Kentucky, says a source there, where the first bio-pharmed crops have been grown. The rival varieties are very different. And the money could be good. A hectare's output of cigarette tobacco is worth about $9,000. As against? Well, one enthusiast in 2002 estimated the same hectare could grow over $400,000-worth of a skin-growth hormone, or near $5m of an anti-coagulant protein. That is surely dreamworld: as supply of the protein rose, its value would fall, and anyway only a portion of such riches would reach the grower. Even so, the sums (not

least, far lower labour costs) are still interesting.

Down on the pharm

There is no visible end to the technical possibilities of bio-pharming. America, well ahead of Europe in this respect, has recently been issuing 30-40 permits a year for field trials: tomato, potato, alfalfa, lupin, rice and maize are among other favoured plants. Far smaller organisms can be used: bakers' yeast is one. And the list of potential products is vast: human albumin and haemoglobin, interferon, vaccines for hepatitis-B, anthrax, cholera and diarrhoea are among the few that a layman has even heard of.

The time between field trials and commercialisation is long, however—at least six years, because any hopeful results still need testing and must then win regulatory approval. But in time bio-pharming and other uses of GM will become a familiar, low-cost means of producing, in volume, things that were once rare. Insulin, for instance, has long been made by putting the human gene for it into a helpful bacterium. Previously, it came, in a less than ideal form, from the pancreatic glands of slaughtered pigs.

The big, publicly visible boom in non-food GM, however, is likelier to come in chemicals, plastics, fibres and fuel. Instead of petroleum, these will be derived from maize, soya or other crops—sugar beet in Europe, say. In time, plants may even be modified to make polymers themselves; it was done experimentally, but then dropped, by Britain's ICI and later Monsanto in the 1990s. Metabolix, a research company in Massachusetts, is now getting bacteria to grow finished plastics that are biodegradable.

The use of farm crops for such purposes is not new. After long research into maize-based plastic, Cargill (grains) linked up with Dow (chemicals) in 1997 and their joint-venture, which began production in 2000, now sells about 140,000 tonnes a year for packaging and bedding. Nor need the crops be GM: Cargill Dow's maize has not been. But it could be. The ethanol makers who already supply over one-fifth of Brazil's motor fuel use sugar cane, but they could as well use soya, some of it the theoretically illegal, but in fact amnestied, GM versions that local farmers have eagerly adopted. And the first step in any such process, fermentation of the maize (or other) glucose, involves enzymes, which these days are usually produced using GM: new “super enzymes” are found by experiment, and the appropriate genes to produce them are fed into some fungus or bacillus that will do the job better than nature till then has done it for herself.

Many organisms are used—DSM, a Dutch chemicals company, lists 34—and the enzymes go wider still: into detergents, cheesemaking (instead of rennet from calves' stomachs), cotton-weaving and countless other processes, new and old.

But that is all scientists' stuff. The world, perhaps to its own peace of mind, has only a nascent idea of it. Greater awareness will come when, to the joy of farmers and governments of oil-lacking countries, the men in white coats have advanced enough for the suits to set their enzymes to work, profitably, on what any eye can see in the fields.

Yes, but how soon? The key word here is “profitable”. Even at today's output (about a thousandth of world plastics output), says Cargill Dow, sales of its maize-based plastic “will barely scratch the surface” of its $750m investment. DuPont, with Genencor, a biotech leader, has put genes from two organisms into a third, to help turn maize glucose into a fibre that it calls Sorona. But it is still far from commercial production, let alone profit.

And those two are well-publicised products, already some way down the road, from world leaders. In the Netherlands, DSM, which makes a feedstock for nylon, is studying sugar beet as a source. Given the EU protection that beet needs to make it competitive with imported cane sugar, can this ever make a profit?

Beautiful bio-fuels

Bio-fuel (which does not depend on GM, but could well use it) is more advanced. Yet not far. Brazil's output, near 4 billion American gallons (15 billion litres) a year of sugar-based ethanol, leads the world. America makes maize-based ethanol, usually mixed one-part-in-ten with petrol. But even with a tax break of 52 cents a gallon (13.7 cents a litre) of pure ethanol, the 80, mostly small, plants will make only 3 billion-plus gallons this year, or less than 2% of all motor fuel used. Bills now before Congress propose 5 billion gallons by 2012; that would by then mean only about 2.5%.

Of course, with high oil prices, these ethanol plants may multiply faster than expected: in oil terms, about $10 on a barrel of crude matches the ethanol subsidy, and oil has risen more in price than that this year. And Brazil's lower-cost ethanol could boost supply (but—you guessed—imports pay a duty of 54 cents a gallon: at bottom, the ethanol subsidy is about farm incomes, not replacing oil).

The EU, producing both bio-diesel and ethanol, is far behind. In all, it makes about 700m gallons a year. Its aims (and motives) are a bit higher: 5.75% of consumption from bio-fuels by 2010. But that too will need subsidies.

The use of GM on the farm crops—and in making the enzymes to work on them more efficiently—will in time speed up and cheapen the production of bio-fuels. But none of these figures suggest the new processes and fuels are about to take over the world tomorrow morning.

Indeed, profit is the big doubt for these grandoil-replacement dreams: they depend much on its price. Pharmaceuticals—especially, though not alone—face a huge and poorly mapped quagmire of intellectual property rights. Yet the real hurdle for non-food GM may still be public opinion.

The pharmaceutical and chemicals companies are mighty, and are quite capable of lobbying hard on behalf of their GM-based innovations. But GM's foes are many, and they can be unscrupulous with facts. If anything goes wrong— as in America in 2002, when GM maize, born of seeds from the previous year's bio-pharmed crop, was found in fields of ordinary soya—the news swiftly reaches far more people than ever hear of the routines in place to avoid such errors. GM needs skills, and courage, in its public relations no less than its laboratories or finance departments.

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Investing in China

Milking it

Oct 7th 2004 | HONG KONG AND SHANGHAI
From The Economist print edition

Imaginechina

Global private-equity investors are targeting China's most dynamic companies. The potential rewards are enormous: so are the risks

A GAMBLE on a dairy in Inner Mongolia must have been hard to sell to the suits in Morgan Stanley's New York headquarters. A bit off the beaten track, isn't it? And do most Chinese even like milk? However, since Mengniu Dairy was listed on the Hong Kong stockmarket in June, its share price has soared by almost two-thirds. Morgan Stanley's Asian private-equity arm has quintupled its $26m outlay in just two years.

Private-equity investments are still rare in China. Although the volume has risen sharply from the annual $50m-100m typical in the 1990s, it amounted to less than $1 billion last year—a small fraction of the $53.5 billion that foreigners invested directly in the country. But both venture capitalists, who invest in very young companies, and private-equity firms, which specialise in later-stage buy-outs, are starting to catch the China fever that has long infected multinational corporations.

Last year, while total foreign direct investment grew only slightly, private-equity inflows doubled. In the first half of 2004, they were 32% up on the same period in 2003. In April, Carlyle Group, one of the best-connected firms in the business, opened its first mainland office, in Shanghai. Wayne Tsou, head of Asian operations, says Carlyle plans to allocate more than 60% of its $1.1 billion Asian funds to China. Longer-established players, who often encountered problems early on, now plan to invest more: these include Warburg Pincus, Baring Private Equity Partners and Softbank China Venture Capital (part of Japan's Softbank). Henry Cornell, global head of private equity at Goldman Sachs, says he is aiming $1 billion of a $2 billion Asia fund at China. He already has $1.5 billion in Chinese companies, including an advertising firm and makers of apple-juice concentrate and diesel engines.

What attracts this money, of course, is the chance to make even more. “China is the fastest-growing large economy in the world. How can it not provide more private-equity opportunities than anywhere else?” asks Mr Tsou. From flotations such as those of Ping An, an insurer, and SMIC, a chipmaker, to the sale of EachNet, an online-auction firm, to eBay, most private-equity firms can boast of at least one enormous pay-off (see table).

Most of these spectacular successes have come from backing Chinese entrepreneurs rather than state-owned enterprises. The latter may still enjoy official favour and almost unlimited resources, but the key to China's dynamism these days is its private sector. Many private companies are in businesses serving China's growing middle class: insurance, consumer goods, logistics, the internet, home improvement materials, microchips. These firms—of which there may be 30m or more—are small but growing by perhaps 20% a year, twice the pace of the economy, and produce 60% of GDP, says one estimate. And they are starved of finance, which state banks are unwilling to offer, especially after recent bank-credit restrictions intended to cool the economy. Expensive black-market loans to private firms account for about 1% of GDP.

The private sector is being assisted—and foreign private-equity firms encouraged—by a deepening of the pool of competent Chinese managers. Many are home-grown; others have experience in the Chinese operations of multinational companies; and a growing number are returnees who have picked up skills and ideas abroad. Even so, most private-equity firms say a shortage of "backable" managers remains a huge problem. Kathy Xu, head of Baring Private Equity Partners in China, notes that locals often lack the discipline to stick to a core business and cannot manage a board. Returnees come back young and inexperienced: they want to get rich quickly, not build a sustainable business. Those from rich foreign firms often care little about cost control—fatal in a country of cut-throat competition on price.

Another headache for foreign private-equity firms often comes once a successful investment has been made: how do they get their money out? In China, domestic stockmarket listings—a standard exit route in countries with mature financial markets—are generally reserved for state firms. Gaining permission takes years and existing investors typically have to hold their shares for a long time. Few can aspire to an overseas listing. In any case, the international appetite for Chinese shares is cyclical: recently, it has been dulled by accounting scandals. Trade sales, another common way out for private-equity companies elsewhere, are on the rise, but are unpredictable. "In China there is no natural exit," says Chang Sun, head of Warburg Pincus in Hong Kong. "Like a roach motel, you can check in but never check out."

Some firms try to get around these difficulties by investing through offshore vehicles. This can make equity easier to sell: in China, foreigners need the approval of government and all other investors before transferring shares. But it can create more problems. Not least, it risks triggering "anti-monopoly" objections, based on poorly defined criteria, from China's Ministry of Commerce, when private-equity firms try to sell to a trade buyer.

Exiting from a failed venture is no easier. Goh Mui Hong, president of the Singapore-based fund of Vertex Venture, an Israeli venture-capital firm, describes her current attempt to wind up a drugs company as a "test case". Marcia Ellis, a lawyer with Paul, Weiss, Rifkind, Wharton & Garrison in Hong Kong, laughs at the idea that China will soon introduce a proper bankruptcy law. "It has been in a draft stage for 12 years," she says.

Harvest time

Sales of Chinese investments by private-equity firms

Company	Investors	Return
China Mengniu (dairy)	Morgan Stanley	5-6 times in two years after IPO in 2004
Ctrip.com (online travel)	Carlyle Asia Venture Partners	12-15 times in four years after IPO in 2003
EachNet (online auctions)	IDG	18 times after sale to eBay for $200m in 2003
NetEase (online portal)	Baring Private Equity Partners	8 times in two years after IPO in 2000
Ping An (insurance)	Goldman Sachs, Morgan Stanley	11 times (on $35m investment 10 years ago for Goldman Sachs) after 2004 IPO
Plantation Timber (wood processing)	J.P. Morgan Partners	12-13 times over nine years after sale to Carter Holt in 2004
Shanda Networking (online gaming)	Softbank Asia Infrastructure Fund	5 times in one year after IPO in 2004
SMIC (semiconductors)	Goldman Sachs, Walden, Motorola	Goldman Sachs completed $1.8bn IPO in 2004

Source: Company reports

Few, though, sound as sombre as Weijian Shan, managing partner of Newbridge Capital, an American private-equity firm which struggled for almost three years to gain board control of Shenzhen Development Bank. Mr Shan believes that widespread overcapacity and a lack of business ethics leads to mediocre returns: "China is one of the most difficult markets for private-equity investors. It is exceedingly difficult to find investment opportunities that will make money in China."

More generally, foreign venture firms have to be prepared for the realities of business in China: corruption, poor corporate governance, a weak rule of law and plain old fraud. The success of Mengniu's IPO led to such a rush into the dairy market that would-be farmers were readily conned into buying counterfeit dairy cows: beef cattle painted black and white, their udders enhanced with balloons.

Experienced foreign private-equity firms are presumably not so gullible. Local venture firms ought to find it easier still to cope with the peculiarities of doing business in China. A local industry is evolving, led by firms such as ChinaEquity, set up by Chao Wang, a former Morgan Stanley banker, and China Enterprise Capital, run by Peter Jeva Au, who made a fortune from his stake in Harbin Brewery (the subject of a bid battle between Anheuser-Busch and SABMiller, two giants of the beer business, this summer). However, with some 300 institutions commanding just 50 billion yuan ($6 billion) of assets, so far it is underdeveloped. For now, Chinese private-equity firms are more likely to form partnerships with the big foreign groups than to compete with them.

Not every venture investor has a strong enough stomach for China. But more and more are increasing their exposure to the country and its dynamic private companies. Like the multinationals that went before them, despite the perils, they see pots of gold. The best advice, perhaps, comes from Goldman Sachs's Mr Cornell: “The things you need in China,” he says, “are a sense of humour and patience.”

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About sponsorship

Banks and hedge funds

Boom or bust?

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Hedge funds are booming. That doesn't mean banks should buy them

WHEN investment bankers fall in love, they fall hard. In the internet bubble, technology-besotted bankers tripped over themselves to woo the next hot internet company, by launching in-house venture-capital funds, boosting bonuses to keep technology bankers from defecting and even, for the most starry-eyed, buying entire investment banks that specialised in technology. Bankers' latest obsession is the booming hedge-fund industry. Once again, they are rolling out the red carpet—launching in-house funds, increasing salaries to retain talent and—more recently—going shopping.

In late September, J.P. Morgan Fleming, one of the world's biggest asset managers, splurged $1.3 billion for a majority stake in Highbridge Capital, a fund with $7 billion in assets. Lehman Brothers is apparently in talks to acquire GLG Partners, an even bigger fund. Whispers abound that more deals are in the works.

The allure of hedge funds is hard to ignore. Their assets under management grew from $170 billion a decade ago to almost $1 trillion today. TASS, a research firm, reckons this number will balloon to $2.4 trillion by 2008. Better still are the fees: typically 1-2% of assets, plus a fifth or more of any profits the funds make.

J.P. Morgan's move gives it instant access to this growth without having to build a track record from scratch. It is also a bet that institutional investors, which have only recently joined rich individuals in popping their cash into hedge funds, will put still more into them. A recent study by Bank of New York predicts that the flow of institutional money into hedge funds will become a $250 billion torrent in five years, from $66 billion in 2003. Because gaining access to the biggest and best hedge funds, many of which are closed to new money, is not easy, J.P. Morgan reckoned its best bet was to buy one.

It could do worse than Highbridge. Unlike recent upstarts it boasts a 12-year track record of strong returns, due in part to its diversification (it pursues seven different strategies). Moreover, says J.P. Morgan, Highbridge's success is not based on one or two superstars. Its two founders do not manage a portfolio and only one manager has left Highbridge since it was set up.

Still, lock-ups and performance targets aside, there is no guarantee that Highbridge's traders will stay, especially given the amount of money they have just made. After all, hedge-fund traders are a notoriously independent bunch, which is why so many of them left banks to start their own funds. Whether J.P. Morgan can reverse this trend hinges on how well it can balance its promise to maintain the independence of Highbridge (including, importantly, the hedge fund's pay structure) with potentially competing demands from shareholders, regulators or resentful, less well-paid colleagues.

Even with its dream team, Highbridge could have a tough time repeating its past performance. Hedge-fund returns have been falling (see chart). According to CSFB/Tremont's index of hedge-fund returns, investors earned 2.6% in the eight months to August, against 15.4% in the same period last year.

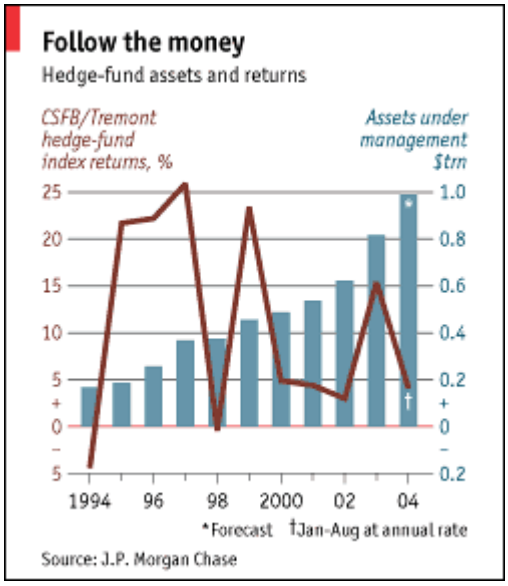
Tough markets are partly to blame. But the larger reason is the enormous amounts of cash flooding into hedge funds. There are only a limited number of things they can do to make money, mostly different types of arbitrage, where investors play on the mispricing of two similar financial instruments. To boost returns, some funds are using more leverage. Others are straying into less liquid investments, such as lending or buying companies.

The competition—there are already some 8,000 hedge funds

around the world—is getting fiercer. And banks everywhere are beefing up their proprietary desks, essentially hedge funds betting the banks' own capital. Big private-equity firms, such as Carlyle Group and Texas Pacific Group, are also throwing their hats into the hedge-fund ring.

All this makes J.P. Morgan's job even trickier. One of the premises of the deal was that the bank would funnel eager institutional money into the fund. But Highbridge is already one of the largest hedge funds around. Growing much bigger would mean taking bigger positions and risk driving down returns.

Given all this, some question why banks would want to own a hedge fund at all. Surely just buying a slice of a hedge fund, such as the 20% stake in GLG that Lehman currently holds, would guarantee access for at least some of a bank's institutional clients—with the added benefit of keeping any losses off the balance sheet? True, banks pay fat management fees to hedge funds, but they earn lots from lending to them and trading with them.



The real winners from the deal are the partners of Highbridge, who are cashing out at what may be the top of the market. “Five years ago, it was the brightest bankers that left [banks] to start their own hedge fund,” says one London-based fund manager. “Now it's the smartest ones who are going back.”

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Corporate finance

Ring my bell

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Matches made in heaven

IT CAN, apparently, take just three minutes to fall in love with another person. Cavendish Corporate Finance, a British merger-and-acquisitions boutique, hopes that something similar is true in the business world. On October 15th it is holding an “event” (“conference” would conjure up unsexy images of droning speakers) at the annual meeting in Amsterdam of M&A International, a network of M&A firms, closely modelled on speed dating.

The event will enable potential buyers and sellers of companies to get together. Rather than indicating hair colour, educational background or height, suitors tick boxes indicating geographical or industrial desires. Meetings will last only 20 minutes: as with speed dating, the object is merely to see whether there is any chemistry. A bell will be rung when the time is up. “What people enjoy at conferences are the coffee breaks; this is a lot of coffee breaks,” says Howard Leigh, Cavendish's managing director.

The rationale is certainly appealing. It can take industrialists or private-equity investors weeks criss-crossing Europe to find and assess potential investments. For would-be sellers, discovering the right suitor can be as hard as daters find it to weed out commitment-phobes or those with an unusual taste in leather. This way, the whole search can be completed in a day.

Cavendish, which was set up in 1988 and specialises in selling middle-sized companies, held a similar event in Dublin last year at which 600 meetings were held. It has already arranged 730 for this year's event, and expects many more to be arranged closer to the day. The firm benefits from any wedding bells, since this could mean more business. Clearly, last year's event did Cavendish no harm: so far this year it has arranged 20 deals, compared with 12 last year. “If they're not distracted by the red-light district, it should be fun,” says Mr Leigh.

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Lazard

Culture clash

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The struggle over the future of a venerable bank

MICHEL DAVID-WEILL must have felt Lazard was in very bad shape when he negotiated the terms on which Bruce Wasserstein would join and run the bank. The chairman gave the veteran dealmaker almost unlimited freedom of action to restore Lazard's shine. Soon after Mr Wasserstein took over in January 2002, Mr David-Weill came to regret this. Alas, it was too late to reverse his self-imposed retirement. And a bullet-proof contract means that Mr Wasserstein's position cannot be challenged until the end of 2006.

Now Mr Wasserstein is determined to float Lazard on the stockmarket. Until recently, this was anathema to the old guard. Mr David-Weill, who directly controls 20.3% of Lazard with three former partners (André Meyer, Jean Guyot and Antoine Bernheim) and their families, categorically refused either to sell the firm or to take it public. He has now relented. On October 5th Lazard's board held an inconclusive meeting in Paris to discuss the flotation of the 156-year-old private partnership.

The main opponents of flotation now are neither the founding families nor Eurazeo, a holding company that owns 15.8% of the bank. Many of Lazard's 202 working partners are unhappy with Mr Wasserstein's plan to buy out non-working partners for a rumoured $1.25 billion, handing to the families and Eurazeo a generous premium over the likely value of their stakes after an initial public offering (IPO). Lazard's value is estimated to be a bit more than $3 billion; Mr David-Weill thinks it is closer to $4 billion.

Even so, an IPO is probably the only way to end the bickering between Mr Wasserstein and Mr David-Weill. The relationship deteriorated when Mr Wasserstein started to lure star bankers with big pay packages and equity stakes, and stopped paying dividends. Even during Wall Street's recent crisis, poaching top names was not cheap. In May the two men sent separate, contradictory letters to investors: Mr David-Weill said Lazard had lost $150m in 2003, but Mr Wasserstein, who excluded bonuses and other compensation to partners from his sums, claimed the bank had made a profit of $250m.

Many of the more than 50 new partners hired by Mr Wasserstein joined Lazard because they liked the individualistic culture of the place. “The only person I have to manage here is my secretary,” says William Lewis, formerly of Morgan Stanley, who became co-head of investment banking in April. The bank's success has been built on its bankers' discretion and its long-term relationships with clients, especially in Europe. Many of the new recruits, believing that a listing will put an end to Lazard's special qualities, might be tempted to jump ship after an IPO.

Nevertheless, a flotation could be a success. Shares in Greenhill, a small investment-banking boutique, have done well since its $87m IPO on the New York Stock Exchange in May. However, for Mr Wasserstein a listing is possibly only a step towards an even bigger deal: the sale of Lazard to a big international bank. He has done something like that before, selling the investment bank he used to run, Wasserstein Perella, to Dresdner Bank for $1.4 billion, of which he pocketed $650m. Money is clearly not his main motivation.

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Exchange rates

The flying forint

Oct 7th 2004
From The Economist print edition

Hungary's currency defies gravity

THIS year, the budget deficit is likely to be more than 5% of GDP; the current-account deficit is running at 9%-plus; inflation is over 7%. And the currency? Believe it or not, it is soaring. Hungary's forint has been trading below 246 to the euro, a 16-month high and within six forints of the top of its official trading band. Not even Hungary's new prime minister, Ferenc Gyurcsany, who pleaded for a weaker rate on October 1st, can talk it down.

Why is it so strong? Mainly because of Hungary's punishingly high interest rates. Despite four cuts this year, they are still 11% (see chart), nine percentage points above the euro area's. They are high by central European standards, too: the Czech Republic's official rate is only 1.5%, Poland's, even after recent rises amounting to a point and a quarter, is 6.5%. Hungary's central bank has pursued an ultra-tight monetary policy to compensate for the government's fiscal laxity. Confusingly, it has an inflation target, of roughly 4% by the end of 2005, as well as its trading range for the forint.

This is not the first time that the central bank's inflation-fighting zeal has run up against the forint's upper limit. In late 2002 and early 2003, when the forint broke out of its official band, the central bank had to cut rates aggressively. The forint fell, but the monetary authorities' anti-inflation credentials were tarnished. Since then, the forint has see-sawed and monetary policy has looked confused, torn between its conflicting objectives.

None of this has been much fun, either for Mr Gyurcsany and his predecessor and fellow Socialist, Peter Medgyessy, or for Zsigmond Jarai, head of the central bank. Bond traders, though, have had a whale of a time: the fat spread on Hungarian government debt has provided ample scope for the “carry trade”—borrowing cheaply elsewhere in order to fill up in Hungary.

Investors seem willing to turn a blind eye to Hungary's chronic fiscal woes as long as the central bank shows no signs of wavering in defending the currency. However, the combination of eye-wateringly tight monetary policy and loose fiscal policy might not be sustainable. The lesson of January 2003 is one example. Poland provides another: in 2000-01, double-digit interest rates contributed to a sharp economic slowdown, putting further strain on public finances. At some point, investors may take fright and flee. Indeed, many analysts think the forint is heading for a fall.

The government must tighten its budget next year to offset poorly timed tax cuts. Its task would be easier if the central bank cut interest rates: growth and tax revenues would be boosted and debt-service costs reduced. But even a deep cut would allow a nice profit for carry traders. The forint may yet stay aloft—and thus leave Mr Gyurcsany still pleading with the markets, grinding his teeth at Mr Jarai.

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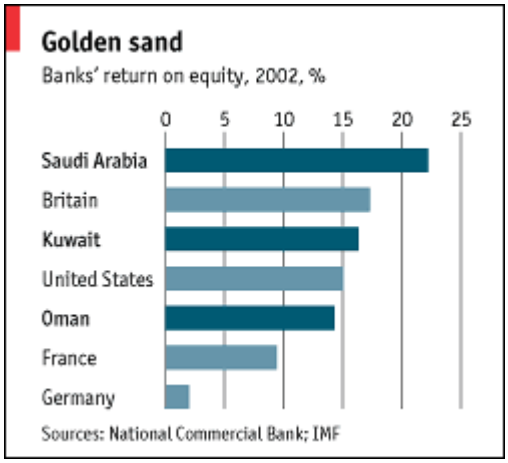
Middle East banks

Desert song

Oct 7th 2004
From The Economist print edition

Banks in the Gulf are booming—and not just because of oil



THESE are profitable days for banks in the Persian Gulf. And no wonder, you might say, with the price of oil topping $50 a barrel this week. The Gulf is awash in money, and banks, the conduits and depositories of it all, are doing nicely. In Saudi Arabia, by far the biggest of the six countries in the Gulf Co-operation Council (GCC), banks' profits in the first half of this year were 30% higher than in the same period of 2003. Last year wasn't bad, either: according to the *Middle East Economic Survey*, a weekly newsletter, full-year profits at GCC banks rose by almost one-fifth from 2002's level, to $7.1 billion. Only one of the 67 banks surveyed reported a loss.

But oil is only part of the story. Banks in the Gulf are also benefiting from a boom in consumer banking. This is a fairly new business, because until about a decade ago the region's banks focused almost exclusively on corporate lending, mostly project finance. The attractions of retail banking are plain. It is much less risky than corporate lending, which tends to be concentrated on a few highly cyclical industries, such as energy and property. Banks in the Gulf can also afford to be choosy about their clients, aiming at the well-heeled. They can be demanding, too: when lending money, banks usually insist on a lien on salaries. Delinquency ratios for consumer loans are correspondingly tiny: less than 1%, compared with 2-3% in developed countries, according to Standard & Poor's (S&P), a rating agency.

Retail banking is proving profitable (see chart). The banks' cherry-picking is one reason. Low taxes are another: helpfully, banks pay none at all in Saudi Arabia, for instance. More important, funding costs are low, owing to the high proportion of deposits in banks that comply with Islamic law, which prohibits the earning of interest. Said al Shaikh, the chief economist at National Commercial Bank (NCB) in Saudi Arabia, the GCC's biggest bank, reckons that non-interest-bearing deposits make up roughly 45% of the total in Saudi banks. Even in Bahrain and the United Arab Emirates (UAE), where the figures are lowest, the share is 10-20%.

This free money can be lent to companies and, more recently, consumers at fat margins. Where necessary, banks bypass Islamic rules against interest by structuring loans as a partnership, on which they receive a return on capital at risk. Because the banking industry is largely protected from competition, profits are easily maintained. “Banks [in the GCC] are oligopolistic,” notes Anouar Hassoune of S&P. “They don't compete on price.”

Can the easy money last? Maybe. Demography suggests that in the long run there will be a steady stream of new customers: the Gulf's population is growing at a brisk 3.5% a year, with 60% of people under the age of 21. And retail Islamic financial products—ie, complying with religious law—are increasingly popular. S&P estimates that the assets of Islamic financial institutions in the Gulf have grown at 10% per year in the past decade. NCB is converting its retail network to Islamic banking; banks in Kuwait and the UAE have also made the switch or are keen to do so.

For all that, Gulf banking remains opaque, uncompetitive and too dependent on the oil industry. Changes are under way that may test the region's banks. In order to prepare for entry into the World Trade Organisation and a proposed GCC monetary union, countries are slowly opening their banking systems to foreign competition. Saudi Arabia passed rules liberalising capital markets last year and is reviewing applications for universal banking licences by foreign institutions. But progress is glacial. So the good

times should continue for Gulf banks—as long as oil prices stay high and consumers keep borrowing.

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Japanese property

Passing Go

Oct 7th 2004 | TOKYO
From The Economist print edition

Despite falling prices, new Japanese property funds are sprouting

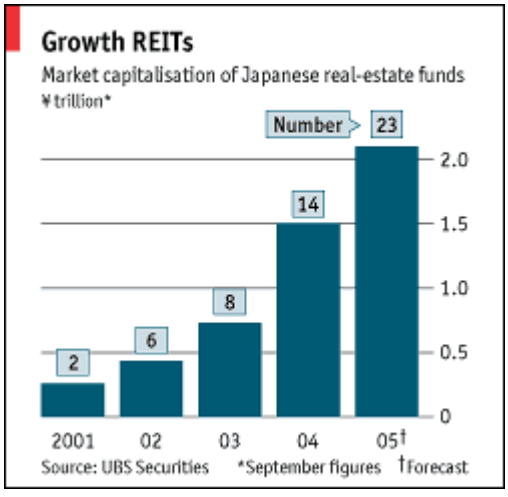
WHEN the quadrennial world Monopoly championship begins on October 8th, it will do so in an unlikely city: Tokyo. Over the past decade, investment in Japanese property has been one of the surest ways of losing a fortune, as prices have slid relentlessly. Lately, though, the mood has been less gloomy, even though average property prices are 90% below their peak and still falling. Many investors think they can see the bottom. And a handful of squares on the Japanese property board, such as prime office districts in Tokyo and a few other cities, are already enjoying rising prices. As a result, new real-estate funds have been popping up.

Although some funds have been venturing into Japanese property for years, these have mostly specialised in distressed assets. Private-equity funds, many of them foreign (and nicknamed “vultures” by the local press), have snapped up hotels and office blocks that were hived off by insolvent borrowers, or purchased bundles of bad loans backed by property assets. Three years ago, however, new rules paved the way for real-estate investment trusts (REITs), which are publicly listed and pay investors dividends based on rents. By law, they must pay 90% of their income as dividends. Japanese REITs offer investors a middle way between the high-risk, high-return vulture funds and stodgy, low-return Japanese property developers, such as those attached to the Mitsubishi, Mitsui and Sumitomo *keiretsu*.

Currently, their dividend yields average a little under 4%, compared with the yield of 1.6% or so on Japanese government bonds. Their total return over the past 18 months has been around 50%, slightly outperforming the Tokyo stockmarket. Although REITs have attracted some foreign and retail interest, their most avid buyers have been Japanese financial institutions. Regional banks, which have few good lending opportunities, have been especially keen.

There are now 14 such trusts, with a market value of around ¥1.5 trillion ($13.6 billion). Toshihiko Okino, an analyst at UBS Securities, reckons that another nine may be launched during the next year (see chart). Roughly three-quarters of the REITs' assets are office buildings, but there are also funds specialising in residential and retail property. Most trusts prefer the high end of the market and a reliable rental stream. Not being specialist property managers, they contract out rent collection, maintenance and so forth, usually to companies linked to traditional property firms.

The sector is still pretty small. The trusts account for only 0.4% of the stockmarket's total value, according to Mr Okino, compared with 1.7% in America. Australia's limited property trusts, on which Japanese REITs are modelled, account for 8.6% of the value of that country's stockmarket.



However, the number of trusts is growing quickly, as changes in Japan's financial system and business climate are shaking loose worthy properties from their previous owners. Troubled industrial firms and retailers have come under pressure to shed unnecessary assets. Even more successful retailers, such as Aeon and Ito-Yokado, now prefer to lease property rather than own it. Private funds, aimed at Japanese institutions and rich clients, are also proliferating, and are now sitting on nearly as many assets as the listed REITs. ProLogis, an American firm that specialises in logistics, is developing more than a dozen modern distribution centres in Japan, and placing the assets in a private fund.

Plainly, REITs have their risks—not least, that rents and property prices might fall. Because the asset managers who run the funds must rely on established developers to manage their property, some critics also worry that they may overpay these advisers for new properties. But plenty of investors consider these risks acceptable and are prepared to roll the dice.

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Economics focus

G-force

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The G7 no longer governs the world economy. Does anyone?

IN SEPTEMBER 1985, the Plaza hotel in New York was the scene of a plot to debauch the dollar. Finance ministers and central-bank governors from the United States, Japan, Germany, France and Britain conspired to narrow America's trade gap and thwart rising protectionism. They promised to curb fiscal deficits in America, cut taxes in Germany and sell dollars in the foreign-exchange markets. In the wake of the Plaza accord, as their agreement was known, the dollar lost almost 30% of its value. It was a triumph of macroeconomic diplomacy. The next year, these five nations admitted Canada and Italy to the elite. The Group of Seven, or G7, as the club was named, has met ever since.

Today the G7 is not what it was. In September 2003, it assembled in Dubai, with America's manufacturers once again bemoaning the dollar's strength. China had pegged the yuan at 8.28 to the dollar and Japan had spent more than ¥9 trillion ($76 billion) that year keeping the greenback above ¥115. The G7 issued a communiqué in effect urging Japan and China to allow more flexibility in their exchange rates. A year on, when G7 finance ministers met in Washington, DC, on October 1st, not much had changed. The yen has scarcely budged, China's peg remains firm and America's trade deficit has widened to almost $600 billion.

The G7 is but one of an “alphanumeric panoply of bodies” (the G10, G20, G24 and G77 are others) that attempt to co-ordinate the economic policies of nation states. A recent review* of these bodies, by Peter Kenen, Jeffrey Shafer, Nigel Wicks and Charles Wyplosz, makes an eloquent and considered plea for reform. Each of these groups was set up in response to some issue of the moment. But though the moments come and go, the groups, clubs and committees come and stay. The result is a disorderly scrum of bodies fighting for turf.

The authors (of whom two are academic economists and two are former officials) nonetheless find much to praise in the G7's economic statesmanship. Unencumbered by formal procedures, the politicians and governors often move with greater dispatch than the technocrats on whose turf they encroach. Whether it be financing the transition from communism, bailing out Mexico, or relieving poor countries' debts, the G7 members thrash out a joint position, then use their combined weight in the International Monetary Fund and the World Bank to advance their common purpose. At last weekend's meetings of the G7, the IMF and the Bank, America and Britain urged the Fund and the Bank to cancel all their loans to poor countries. Neither country's initiative made much progress. But what the G7 proposes, the Bank and the Fund find hard to oppose for long. The converse is not true. For example, the IMF's recent initiative to set up a bankruptcy court for sovereign borrowers had much to commend it. But without the G7's support, the idea has gone nowhere.

The Fund's original mandate was to manage the orderly adjustment of the balance of payments between its members. The G7 usurped that role at the Plaza hotel, but no one performs it now. Currency misalignments and trade imbalances are natural occasions for international co-operation: no exchange rate belongs to one country alone. Some economists, such as Milton Friedman, a Nobel laureate, argue that such co-operation is redundant. Exchange rates should be left to market forces, which can co-ordinate the policies of different countries for them. Currencies free to float leave national policymakers free to concentrate on their domestic “homework,” as Bernhard Winkler of the European Central Bank puts it: keeping prices stable and budgets in balance. Mr Winkler considers the Plaza accord and the Louvre accord of 1987, which halted the dollar's fall, to be signs of failure not triumph. They were needed only because the American government could not balance its books. Co-operation abroad is necessary only because of mismanagement at home.

The C1

American intervention in the foreign-exchange markets peaked in 1989. Since then it has pursued a dollar policy of benign neglect. But other countries, such as China, have yet to heed Mr Friedman. China's peg to the dollar is a decade old. Its central bankers say they want a more flexible yuan—eventually. “China has an 8,000-year history,” one of them quipped this month. “A decade is truly a short period.”

The yuan accounts for less than 10% of the trade-weighted value of the greenback. But its peg is nonetheless an obstacle to a broad realignment of currencies. Other East Asian countries, which trade with China and compete against it, will not allow their currencies to strengthen much until China does also.

This month, the G7 finance ministers invited Chinese officials to dine with them for the first time. But the report's authors believe China warrants more than a meal. A new group is needed, comprising representatives of all the main currencies, and only them. The report recommends that America, the euro zone, Japan and China meet in a “G4”, overseeing balance of payments adjustment between these economic blocks.

The authors are right to give China a place in the highest councils of macroeconomic diplomacy. Without it, the G7 cannot hope to achieve much. But adding China to the group, or creating a G4, will not create consensus where none currently exists. Agreement at the Plaza hotel was possible only because the domestic politics of each country favoured it. Similarly, China's peg will remain until its authorities' fear of domestic inflation—or of American protectionism—outweighs their fear of floating. There is no easy alphanumeric solution to the imbalances of the world.

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* “International Economic and Financial Co-operation: New Issues, New Actors, New Responses.” Published by the International Centre for Monetary and Banking Studies, Geneva, and the Centre for Economic Policy Research, London.

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Computing

One grid to rule them all

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Efforts are under way to create a computer the size of the world

THE stated goal of grid computing is to create a worldwide network of computers interconnected so well and so fast that they act as one. Yet most of the time, this over-hyped catchphrase is used to describe rather mundane improvements that allow companies to manage their workload more flexibly by tapping into idle time on their computers. At a meeting on computing in high-energy physics held in late September in Interlaken, Switzerland, physicists and engineers reviewed progress towards an altogether more ambitious type of computing grid, which aims to create a truly seamless system.

Physicists' demand for computing power is being spurred by the flood of data that will pour out of the Large Hadron Collider (LHC), the next-generation particle smasher due to start operation in 2007 at CERN, the European particle physics laboratory near Geneva. This machine will produce some 15 petabytes (millions of billions of bytes) of data a year, or the equivalent of about 3m DVDs, which physicists will store and sift through for at least a couple of decades in search of those few rare collisions where exotic new particles are created. To put this in perspective, current estimates of the annual production of information on the planet are on the order of a few thousand petabytes, so the LHC will be producing nearly 1% of that total. Some 100,000 of today's fastest personal computers—with accompanying bits and bobs such as tape and disk storage and high-speed networking equipment—will be needed to analyse all this data.

The decision to build a distributed computing system to deal with this deluge of data predates the hype about grid technology and is purely pragmatic: it would be difficult to fund the necessary computational power and storage capacity if it were concentrated on one site. If, on the other hand, the computations are distributed among the hundreds of institutes worldwide that are involved in the LHC, each institute can tap into national or regional funding sources to raise cash, spreading the pain. The LHC Computing Grid (LCG) started providing a bare-bones service to high-energy physicists a year ago, with at first just 12 centres involved.

This grid was initially a struggle to manage, because the middleware—the software that handles supply and demand of resources on the grid effectively, as well as security and the other niceties that a distributed system entails—had been cobbled together from various academic projects, and was not mature. But the LCG project has rapidly ironed out the worst problems, and now involves some 80 computing centres in 25 countries contributing over 7,000 computers.

This is still far short of the requirements of the LHC, but with three years to go before the collider is ready, Les Robertson, the LCG project manager, reckons that prospects for narrowing the gap look good. In Interlaken, physicists reported on a number of “data challenges” recently attempted. For instance, one challenge used the grid to process simulated LHC data, but at only one-quarter of the rate physicists expect from the collider.

The LCG is now reckoned to be the biggest—and most global—computing grid around. But it is certainly not alone. America's space agency, NASA, launched an “Information Power Grid” project six years ago, and dozens of other grid initiatives have followed, for everything from earthquake simulation to quantum chemistry. Particle physicists are also using computing grids provided by NorduGrid, a Scandinavian initiative, and Grid3, a consortium based in America. As Mr Robertson diplomatically puts it, Grid3 and NorduGrid inter-operate with the LCG. However, convergence towards common standards of middleware appears to be slow in the academic world. The vision of a single grid, in the same sense that most users perceive a single web, remains a long way off.

Not all problems are best solved using the distributed clusters that underpin grids. True supercomputers are irreplaceable for some scientific problems, such as weather forecasting, where many processors must communicate frequently with one another. At the other extreme, scavenging spare computer power from personal computers on the internet is proving an increasingly effective approach for problems that can be split into a large number of small, independent parts. SETI@home, a screensaver which was the first and remains the best-known of these programs, uses idle time to analyse radio signals, looking for messages from aliens. For now, SETI@home is still the largest of these projects, although a new general-purpose platform called “BOINC” has been launched to tackle more diverse problems.

Nevertheless, the progress of the LCG is being keenly followed by industry. For instance, Hewlett-Packard, IBM, Intel, Oracle and Enterasys Networks, a bespoke network firm in Massachusetts, have formed a partnership with CERN called openlab to test their cutting-edge hardware and software on the LCG. Hewlett-Packard is even contributing computing power from some of its own data-centres to the LCG. It is not doing this out of philanthropy, but rather to keep tabs on what may one day be an interesting business opportunity.

Sceptics may wonder why private companies would ever want to share computing resources co-operatively, as particle physicists are doing. The security risks may seem insurmountable, and the economic benefits questionable. Yet sceptics beware. Twelve years ago, at a previous edition of the Interlaken conference, a young CERN engineer named Tim Berners-Lee gave out T-shirts advertising a new and rather obscure scientific-networking tool of dubious economic value: it was called the world wide web.

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The Nobel prizes

Smells like team spirit

Oct 7th 2004
From The Economist print edition

How people smell; what holds atoms together; and how proteins are binned

ONE of the more theatrical aspects of the Nobel prizes in the sciences is that, while they are announced in Stockholm in the morning, they are often won by Americans (six of this year's eight). This means that the lucky recipients are informed of their good fortune by a phone call at the break of dawn or, sometimes, in the middle of the night. And this, naturally, can lead to amusing confusion.

When the director of basic sciences at the Fred Hutchinson Cancer Research Centre in Seattle received a call at half past two in the morning from a Swedish professor, he assumed the caller was looking for a job. When the caller said he was trying to find Linda Buck, the director's suspicions were confirmed—Dr Buck is the head of the centre's job search committee. The sleep-addled director chastised the caller, saying that if he wanted a job, this was not a good way of getting it. And so the caller broke the Nobel committee's iron-clad rules of secrecy: in fact, he confessed, he was trying to find Dr Buck to tell her that she had won the Nobel prize. Dr Buck was awarded the physiology or medicine prize, along with Richard Axel of Columbia University in New York, for their work in investigating the sense of smell.

Until a joint paper by Dr Axel and Dr Buck in 1991, no one understood how smell worked. It was known that people could recognise, and remember, around 10,000 different odours, but the mechanism was a mystery. Dr Axel and Dr Buck found that a whopping 1,000 genes are devoted to coding for proteins which act as “odorant receptors”. Even more surprisingly, they found that each receptor, located on the surface of a particular cell, is unique, and when activated by an odorant, triggers the cell to send an electrical signal to the brain. The idea that so many distinct cells—over 1,000—respond to smell was completely unexpected at the time. But 1,000 is still far short of 10,000. Since 1991, working separately, the two have found how each protein can be sensitive to more than one smelly chemical, in different amounts, and how any given chemical activates several proteins at once, much like a unique musical chord which the brain then identifies as a smell.

If pungent smells drive people apart, the physics prize went to researchers—David Gross of the University of California, Santa Barbara, David Politzer of the California Institute of Technology, in Pasadena, and Frank Wilczek of the Massachusetts Institute of Technology—who were the first to understand what holds atoms together. Since the early 20th century, when physicists realised that atomic nuclei were composed exclusively of protons (with a positive electric charge) and neutrons (with no charge) they knew there must be a force, dubbed the strong nuclear force, that holds the nuclei together. Otherwise, since like charges repel one another, the nuclei would blow apart.

But for many years, no one could understand exactly how the strong force worked. Even for physicists, the maths was fiendishly complicated, and a realisation in the 1960s that protons and neutrons were both composed of more fundamental particles called quarks did not help. Then, in 1973, Dr Gross and Dr Wilczek, working together, and Dr Politzer, who was in a competing group, came virtually simultaneously to an understanding of how the strong force worked.

They devised a mathematical explanation of how, startlingly, the force got stronger the farther quarks were pulled apart. When they were close together, as in a nucleus, they were almost free to move around. But try and pull them apart, and, as if held by a rubber band (sort of), they would snap back together.

The basic idea had been in the air for a few years, but the three laureates were the first to get it entirely correct. Their work led to what is known as the theory of quantum chromodynamics, which explains, precisely, how quarks behave.

Ubiquitous consumption

As is fast becoming a habit, the chemistry prize went to a group that might have won the medicine prize instead. Aaron Ciechanover and Avram Hershko of the Technion, in Haifa, Israel, and Irwin Rose of the University of California, Irvine, gathered their laurels for joint research into how cells break down proteins. At the time that they were working, in the early 1980s, many groups were concerned with understanding protein synthesis, but few worried about how proteins were disposed of.

The trio found that a single molecule, aptly named ubiquitin, was used as a “bin tag” that told a cell to throw away a particular protein by chopping it up into many small pieces. Their work has proved especially important for understanding how cells replicate. It also has big implications for research into cancer, cystic fibrosis and the immune system.

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Manned spaceflight

SpaceShipWon

Oct 7th 2004
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EPA

The X Prize is claimed, and a new era begins

THE phrase “paradigm shift”, coined to denote a sea-change in mentality or understanding, has become a tad shopworn. But such a shift occurred on October 4th when *SpaceShipOne* reached space for the second time in six days. By so doing, it won its owner, Mojave Aerospace Ventures, the $10m Ansari X Prize, which was established in 1996 to spur the development of private spaceflight. *SpaceShipOne* was designed by Burt Rutan. It is a rocket, launched in the air, which lands like an aeroplane after falling like a shuttlecock.

Who ever said there is no money to be made in private spaceflight? Mr Rutan's efforts have been funded by Paul Allen, a co-founder of Microsoft. Between the X Prize money and that promised the week before in a licensing agreement with Sir Richard Branson, a British entrepreneur, Mr Allen, ever the savvy businessman (perhaps, in this case, in spite of himself) seems to have already guaranteed himself a profit. The paradigm shift, which began with *SpaceShipOne*'s first flight into space in June, is away from government-funded space programmes to a dynamic bevy of private efforts. Mr Rutan's firm is not the only one around—numerous others lie in his wake, hoping to overtake, or at least match, his accomplishments.

But the real significance of the shift is not so much one from public to private, as one from inaccessibility to accessibility. Never has an area of human endeavour been restricted to so few for so long. Even NASA, America's space agency, is belatedly recognising the shift—it has announced that it will begin offering prizes much like the X Prize for private achievement in spaceflight. Congress has not yet approved much of that money, so it might not materialise. What seems to be surer is a $50m prize proposed by Robert Bigelow, a hotel magnate and would-be space entrepreneur, for the first private manned mission to orbit the Earth.

Mr Rutan's critics contend that he has focused on sub-orbital flight rather than trying to reach orbit, a much more significant goal in the long term. But then, he did design the first aeroplane to make it around the world on a single tank of fuel—so it looks a safe bet to say that this triumph will not be his last.

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Aquaculture

The fishing fields

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A new way of hatching fish (which is in fact old)

GIVE a man a fish and he will eat for a day. Give him a fish farm, and a rice harvest to boot, and he will eat for a lifetime, and, with some luck, have something left over to sell. Fish farming in developing countries is an important source of income for impoverished farmers. In countries such as Bangladesh, most fish-farmers still depend heavily on monsoon rains to fill their ponds with water. For them, timing is everything. The farmers need to have plenty of young fish on hand just before the flood arrives.

This is not a problem for fish such as riverine carp that can easily be induced to spawn and produce millions of eggs at a time. But it can be a tricky business for fish like tilapia—a freshwater, omnivorous fish popular in the region—that can only spawn naturally and produce merely a few hundred eggs at a time. Large-scale production of such fish would not be viable without lots of hatcheries. But an approach developed jointly by David Little and Anton Immink at the University of Stirling, in Scotland, and Benoy Barman at the World Fish Centre in Bangladesh is now cheaply creating just such hatcheries.

Dr Little turned to a method that had fallen into disuse. Until increased use of fertilisers and pesticides wiped them out, fish thrived in the region's numerous rice fields. The researchers have been working for the past two years to convince Bangladeshi farmers to reduce their pesticide use in order that juvenile fish might again thrive in their rice paddies. This lets farmers grow large numbers of juvenile fish, which can then be transferred to nearby ponds to grow further after the monsoon rains have done their work.

Re-introducing fish to the fields has also improved rice production. Fish had long been an integral part of the ecosystem. They feed on weeds and insect larvae, and so control a variety of pests in the fields, contributing to nutrient recycling and efficiency. According to Dr Little, re-introducing fish has not only raised yields, but has also made them more stable.

The elimination of pesticides pleases environmentalists and makes financial sense for the farmers. By adding fish, they can double the income they earn from their rice plots—which is what has convinced them to curtail their use of pesticide. Earlier attempts failed because pesticide salesmen had proved much more persuasive than scientists advocating sustainable development.

The retro-farming approach has the added advantage that it disproportionately benefits the very poor. Generally speaking, the increased costs and risks of intensified rice production and fish cultivation in ponds meant that better-off people had benefited the most. Until now, the rapid spread of inland aquaculture in the region has been fuelled by juvenile fish produced in “proper” hatcheries by well-off entrepreneurs.

Restoring the old practice of producing fish in rice fields has spread rapidly from small farmer to farmer. In the past two years, over 2,000 farmers in the north-west of the country have converted to this practice. Sometimes the old ways really are the best ones.

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Volcanoes

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From The Economist print edition

AP

Several times in the past week, Mt St Helens in Washington sent forth plumes of steam and ash. Magma is nearing the surface and a major eruption could come within days. It would almost certainly be far smaller than that of 1980, which killed 57 people.

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About sponsorship

Oil and geopolitics

Crude arguments

Oct 7th 2004
From The Economist print edition

Magnum

The problem with oil is not its shortage, but rather its concentration

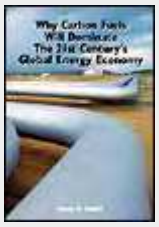
AT THE end of the second world war, President Franklin Roosevelt attended a summit that changed the course of world history. No, not that meeting at Yalta, with Joseph Stalin and Winston Churchill. Immediately after that, Roosevelt travelled quietly to the *USS Quincy*, anchored near the Suez Canal. The man with whom he met had rarely set foot outside his home country, and insisted on bringing along his household slaves and royal astrologer.

That man was King Ibn Saud of Saudi Arabia. In the years before the war, the desert kingdom had gone from sleepy backwater to the most promising oil province in the world. Military planners in America were painfully aware of the swift decline in their own country's domestic reserves. So, in return for guaranteed access to Saudi Arabia's vast quantities of oil, Roosevelt promised the tribal chieftain America's full military support. In the decades since, the vow has proved to be one of the few fixed points of global politics—though for how much longer is an open question.

That close military relationship has helped feed a favourite current conspiracy theory, that of “blood for oil”, ie, that American blood in Iraq is being spilt for the benefit of oil interests. Another popular theory is that the oil is running out altogether. Politicians of both parties in America have latched on to these ideas, and now champion notions of “energy independence”. That blood is being spilt for oil; that oil is anyway running out; and that energy independence is therefore a magic solution: all are superficially attractive propositions. Yet they are also all wrong. Happily, three intelligent new books cut to the quick on these issues.

The biggest fallacy is that the world is about to run out of oil. A spate of recent books, with such titles as “Out of Gas”, argue that oil is scarce, and that an impending crisis will put the crises of the 1970s and early 1980s in the shade.

Why Carbon Fuels Will Dominate the 21st Century's Global Energy Economy
By Peter R. Odell



Multi-Science Publishing; 192 pages; £39

Buy it at Amazon.co.uk

Blood and Oil: The Dangers and Consequences of America's Growing Dependency on Imported Petroleum
By Michael T. Klare

Some see the recent rise in oil prices to $50 a barrel as a dire warning.

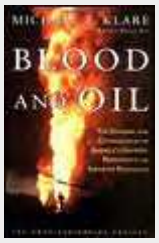
Nonsense, argues Peter Odell, a grand old man of oil forecasting who proved wrong the pessimists of the 1970s. In his new book, he points to two flaws in the argument that a peak in global oil production is coming, followed by decline: both technology and economics are ignored.

As experience has shown time and again, oil technology just gets better. The industry now uses tools unavailable in the 1970s—ranging from seismic imaging of reservoirs to advanced supercomputing—to tap oil from places unimaginable back then. As a result, proven reserves of oil are actually larger today than they were three decades ago.

Also, price signals matter: if there were a real scarcity of oil, prices would soar and companies would scramble to find more oil or its alternatives, while consumers would use less of it. Mr Odell argues, quite reasonably, that “non-conventional” oil—such as that made from Canada's mucky “tar sands”—will make up for an eventual decline in conventional sources of oil. His conclusion will anger some and surprise others: gas-guzzlers will have plenty to run on for the rest of this century.

The problem with oil is not its scarcity, rather its concentration. That is one powerful conclusion drawn by Michael Klare in “Blood and Oil”, a thoughtful and well-researched history of oil and geopolitics. Mr Klare is certainly critical of American policy, particularly of the way the United States has cosied up to nasty regimes because of their supplies of oil, helping prop up the House of Saud, for instance. Yet he counters the claim that the invasion of Iraq was “all about oil”.

Mr Klare provides a service when he puts America's close ties with Saudi Arabia in a historical context that mocks the charges—made by Michael Moore, for example, in his film “Fahrenheit 9/11”—that the Bush clan has done most to shape the relationship. He starts with that meeting between Roosevelt and Ibn Saud. He notes that it was the doctrine of Jimmy Carter, a Democrat, explicitly to defend America's access to oil exports from the Persian Gulf “by any means necessary”.



Metropolitan Books; 265 pages; $25. To be published in Britain by Hamish Hamilton in November

Buy it at
Amazon.com
Amazon.co.uk

Winning the Oil Endgame: Innovations for Profits, Jobs, and Security
By Amory B. Lovins, E. Kyle Datta, Odd-Even Bustnes, Jonathan G. Koomey and Nathan J. Glasgow

Rocky Mountain Institute; 309 pages; $40. Earthscan; £49.95

Buy it at
Amazon.co.uk

The independence myth

In short, the militarisation of America's energy policy has been a bipartisan affair. And it is Mr Klare's view that serious problems are in store. He notes that two-thirds of the world's proven reserves of conventional oil lie in the hands of five countries in the Persian Gulf, with Saudi Arabia atop one-quarter of the world's reserves. As oil gets depleted rapidly in other parts of the world, the West will come to depend ever more upon these currently undemocratic and perhaps unreliable countries.

For neoconservatives in Washington, that is one more reason for fostering, by force if necessary, liberal values and democracy in the Middle East. For many congressmen, it is a reason to call for energy independence. Yet the phrase has become misleading, for it is used to justify subsidies for pork-barrel projects or mere sops to the industry, such as drilling for oil in the Alaskan wilderness. Given that America consumes a quarter of the world's oil but has barely 3% of its proven reserves, it will never be energy-independent until the day it stops using oil altogether.

How to get there? Amory Lovins has some sharp and sensible ideas. In “Winning the Oil Endgame”, a new book funded partly by America's Defence Department, this sparky guru sketches out the mix of market-based policies that he thinks will lead to a good life after oil.

First, he argues, America must double the efficiency of its use of oil, through such advances as lighter vehicles. Then, he argues for a big increase in the use of advanced “biofuels”, made from home-grown crops, that can replace petrol. Finally, he shows how the country can greatly increase efficiency in its use of natural gas, so freeing up a lot of gas to make hydrogen. That matters, for hydrogen fuel can be used to power cars that have clean “fuel cells” instead of dirty petrol engines. It would end the century-long reign of the internal-combustion engine fuelled by petrol, ushering in the hydrogen age.

And because hydrogen can be made by anybody, anywhere, from windmills or nuclear power or natural gas, there will never be a supplier cartel like OPEC—nor suspicions of “blood for hydrogen”. What then will the conspiracy theorists do?

Why Carbon Fuels Will Dominate the 21st Century's Global Energy Economy.
By Peter R. Odell.
Multi-Science Publishing; 192 pages; £39

Blood and Oil: The Dangers and Consequences of America's Growing Dependency on Imported Petroleum.
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About sponsorship

Plundered treasures

Point of no return

Oct 7th 2004 | AKSUM, ETHIOPIA
From The Economist print edition

Ethiopia wants its stuff back

AP

IT IS a poor country with a rich history. Through force and unfair dealing, many of Ethiopia's historical relics have left the country. Ethiopians want to bring them home, not just to celebrate their past, but to earn tourist dollars in future.

The main contention is a 150-tonne granite obelisk, 24 metres high, which is now lying in pieces in a police yard in Rome. Until 2003, the obelisk—carved intriguingly with doors and windows as if it were a ten-storey building—spent 66 years standing at one of the city's busy intersections. The obelisk dates from the fourth century and comes from Aksum, a northern Ethiopian town where it probably served as a royal tomb marker and ceremonial altar.

When the Italians invaded Ethiopia in 1935, the obelisk—which by then had fallen down and fractured into five chunks—was shipped as fascist booty to Rome. In Aksum one elderly Ethiopian, Abebe Alemayehu, remembers the trouble the Italian army had shifting the obelisk, their trucks bogged down by the weight.

As part of a treaty in 1947, Italy promised to return the obelisk and other objects looted during the occupation. Fifty years later, the two governments signed yet another agreement to send the obelisk back. A damaging lightning strike two years ago was a catalyst at last to dismantle the monument and pack it up for shipment. Since then, it has not budged from Rome.

Still, the Rome University professor in charge of the obelisk project, Giorgio Croci, is hopeful. He says that the monument should start the long trip home by early next year. It will cost €5m ($6.1m) to ship and re-erect it.

The Italian government has yet to announce that all of the money has been earmarked. Then there are logistics. The port through which the obelisk left in 1937 now belongs to Eritrea, with which Ethiopia has fought a bitter war. The nearest feasible port, Djibouti, is 900 kilometres (560 miles) from Aksum, across roads and bridges which may not take the strain. The current plan, says Mr Croci, is to hire an ex-military Russian transport plane to fly the pieces over, one by one.

Back in Aksum, people are confident of the obelisk's return. It will be a happy day, says Amare Lemma, a retired Ethiopian senator, not just for Ethiopia, but for other countries which have lost their cultural treasures and want them back. The whole world, he says, will have to rethink.

Ethiopians are also pushing for the return of the Maqdala treasures, looted by the British army in 1868. Richard Pankhurst, a historian at Addis Ababa University, reckons that at least 500 crosses, crowns, shields, manuscripts and such are still abroad, most of them in British collections. Most controversial are the “tabots”—carved blocks of wood or marble sacred to the Ethiopian Orthodox Church. The British Museum has 11 tabots kept in a special room, currently seen only by priests.

This is unsatisfactory, says Gebre Georgis Dimtsu, a priest living in London, since the tabots can scarcely perform their function in religious ceremonies while in a museum. The Church's Patriarch has called for their return. The British Museum says it cannot take the tabots out of its collection, because of the law governing its accessions. A House of Commons committee calls the current situation a “patent

absurdity". One possibility is to loan the tabots to Orthodox churches in London.

Just as daunting for Ethiopia as getting back its relics is preserving the ones it still has. Conservation is tricky, in part because of a serious shortage of trained experts. The World Bank hopes to help Ethiopia with a $5m loan to develop the country's cultural assets, improve inventory systems, foster training programmes and encourage people to make good handicrafts—better than selling loot.

Although laws exist against removing cultural property, opportunities abound. When this correspondent stopped by a shop with a collection of ancient pottery, the shopkeeper insisted, in front of a local official, that he was saving the stuff to start his own museum. As soon as he was out of official earshot, the line changed: "How much do you want to pay?"

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About sponsorship

Boucher at the Wallace Collection

Lush life

Oct 7th 2004
From The Economist print edition

His rococo style still discomfits the Brits

Luxe, calme et volupté

VOLUPTUOUS nudes teasing naked cherubs; amorous shepherds wooing milkmaids; everyone wreathed in flowers under a turquoise sky: these are the identifying marks of François Boucher (1703-70), and to some modern, British eyes they are unpalatable. Yet London's Wallace Collection, home to the world's best collection of the French artist's work, is pulling out the stops to celebrate, until next April 17th, this painter of pleasure par excellence.

Exhibiting Boucher in Britain, says the curator, Jo Hedley, was an uphill struggle a century ago, when the Wallace Collection opened, and is one today. The problem the intelligentsia have with Boucher is that he is neither deep nor meaningful. Yet, says Ms Hedley, Boucher's art is about beauty, and beauty can be profound. The French, at least, still treasure his visual refinement and luxury.

Certainly, the collection's founder would have loved the irony of his trove of French art ending up in London. The fourth Marquess of Hertford was a libertine who left England in 1842 to live an escapist fantasy in Paris. He devoted his life to chasing women and to surrounding himself with the art of an 18th century he wished he had inhabited. His bastard son, Sir Richard Wallace, inherited the art, and in 1897 Wallace's wife left it, along with his London mansion, to a bemused nation.

For the first time since then, the museum has managed to place all of the Bouchers in one grand gallery, alongside work by contemporaries and accompanied by the furniture, porcelain and potpourri pots that became fashionable thanks to his art. The result is a revelation. Boucher has always looked better in the Wallace's intimacy than in conventional museums, because his art was meant for luxurious private interiors rather than grand public spaces. Now that his work sits alongside artists of his own time, you can follow the progress of this poor draughtsman's son who worked his way up through the Parisian art world. After years of hard graft, he married an aristocratic beauty and became painter to Louis XV and his mistress, Madame de Pompadour.

Boucher began life as a talented nobody. Even when he won the French Academy's Prix de Rome, he was denied the prize because the minister of culture had not heard of him. Determined to succeed, he worked as an engraver to earn enough to send himself to Rome. When at last he got there, he gravitated towards the sensual art of the baroque, rather than the academically approved works of Raphael and Michelangelo, which he found depressing.

Back in Paris, he was full of ambition but lacked patrons. So he decorated the home of a rich lawyer for nothing, so long as potential clients could come to see his work—a masterstroke of marketing. Boucher's reinvention of classical mythology as a flirtatious fairy tale became the talk of Paris. Titian and Rubens had painted the “Rape of Europa” as a kidnapping, with Zeus disguised as a bull to carry off the helpless nymph. Yet Boucher's version makes you giggle at an emasculated Zeus, chained in flowers in order to get the girl. In other words, the painting is all about the elaborate courtship games so loved by the 18th-century French elite.

Boucher's most illustrious client was Madame de Pompadour, one of the most lavish art patrons of all time. She employed him both to beautify her own image—in the Wallace's famous portrait, she appears swathed in pink and looking like a rose planted in a garden of delights—as well as to keep the king amused with seductive mythological scenes. Through Madame de Pompadour, Boucher became a luxury

brand, exemplifying the rococo style. His designs percolated throughout the decorative arts, notably on Sèvres porcelain, for decades to come.

Yet as Madame de Pompadour's star began to wane from the late 1750s, so too did Boucher's. He had become wealthy and had amassed an impressive collection of art and natural history, elements of which are on display, but by the time his younger cousin, Jacques-Louis David, asked in 1764 to become his apprentice, Boucher would not accept him. Rather, he recommended that the aspiring young painter study with a neoclassical artist, Joseph-Marie Vien, whose moralising tone was more in tune with the times.

Boucher's art today appears unedifying to some. Yet the artist who had raised himself out of poverty had no wish to recall the miseries of life. His genius was to improve on reality rather than to imitate it. Above all, he wanted to seduce the eye with sensual beauty. It is not a little thing, as Voltaire said, to give pleasure.

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Musical theatre

The best cut

Oct 7th 2004
From The Economist print edition

Currently London's finest show

“SWEENEY TODD”, Stephen Sondheim's 1979 Broadway show, seems rarely to be absent from British stages. Even devotees might balk at yet another turn with this material, where the business of its London protagonist and his accomplice, Mrs Lovett, has to do with turning those seeking a haircut into meat pies. The latest production comes soon after two entirely contrasting operatic ones. (The most ridiculous, at the Royal Opera House, located the Victorian-era melodrama in what looked like Auschwitz.) Yet this one is a model of compression, and quite the best thing in London right now.

In a pared-down company of nine, who double as their own musicians, this new chamber-style “Sweeney”, directed by John Doyle, strikes a fresh and unnerving chord. Next week, it transfers to the New Ambassadors theatre, after its run at the Trafalgar Studios, an intimate venue where the steeply raked seating only heightens the vertiginous appeal of the production.

It could be argued that Mr Doyle's stylised, rather abstract, take on proceedings is most fully enjoyed by those already familiar with the show. In that case, you will not, among other things, miss the conventional barber's chair that is central to the tale.

The production copes well with the loss of a few props; the gain comes from a cast that acts as well as it sings and plays. The music-making is often in poignant counterpoint to the moment at hand. It is a revelation. Musical theatre does not get more merciless, or more thrilling.

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About sponsorship

Veteran Washington observers

Pride, and shame

Oct 7th 2004
From The Economist print edition

THESE two authors know politics from the inside. Arthur Schlesinger, an eminent historian, worked in the White House for John Kennedy. Hendrik Hertzberg, a *New Yorker* journalist, wrote speeches for Jimmy Carter. Both are unashamed liberals who will whoop for joy if President George Bush loses in November, without betting that he will. Each leavens passion with wit. You may not agree with them. But you would have to be deaf or defective not to be drawn to their tone.

Mr Schlesinger's immediate topics are the war in Iraq, presidential authority and patriotism. His underlying themes are the fluidity of power in Washington and the diversity of American opinion. In his mid-80s, he writes as if he has read and seen it all. In lesser hands, that would be insufferable. Here, the point is to bring historical perspective to a confusing present.

Briskly and elegantly, he covers a lot of ground. The president's critics chide him for abandoning a tradition of multilateralism. Mr Schlesinger agrees, save to note that unilateralism is the historical rule for the United States, multilateralism the exception. Next he argues that the Bush doctrine of preventive war is already obsolete: it calls for foresight that neither America nor anyone else possesses, and it relies on trust among allies that in his eyes the administration has squandered.

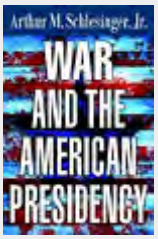
On the Washington seesaw, when presidents are up, it usually means they are about to come down. Mr Schlesinger shows this of every war president, including Lincoln and Franklin Roosevelt. Congress is obliging when fighting starts, but habitually turns balky later. Nor have the American people ever rallied as one to war presidents, as Mr Bush's attorney-general, John Ashcroft, suggests that they should. Whenever governments have sought to suppress wartime dissent, “we hated ourselves in the morning”.

After a brief excursion into electoral reform, Mr Schlesinger ends with a warning not to ride history too hard—what it most reliably teaches is to expect surprises. Like his neoconservative adversaries, whose tone and tactics he otherwise abhors, he is nevertheless hopeful about the fate of liberal democracy generally. Unlike them, he thinks that armed campaigns for liberal values under American leadership are virtually doomed to fail. Not that the imperial urge is ever uppermost in his country for long. The drive to dominate is always undone in the end, he tells us, by America's own “pluralistic and tolerant ideals”.

Mr Hertzberg's collection is enlivened by the same mix of pride and shame in America—you can't have one without the other, not if the pride is real. A journalist and former naval officer, Mr Hertzberg edited the *New Republic* before moving to the *New Yorker*. Magazines thrive in opposition, making awful cheerleaders and even worse apologists. Much as the conservative *Weekly Standard* led the running against liberals and Democrats in the Clinton years, the *New Yorker* is now one of the sharpest, best-informed critics of Mr Bush and the Republican right. Mr Hertzberg is part of that success.

For a journalist, publishing cuttings is a risk. These ones, which run from 1966 to now, hold up. They are always readable, often funny and almost always have a serious point to make.

War and the American Presidency
By Arthur M. Schlesinger



Norton; 160 pages; $23.95

Buy it at
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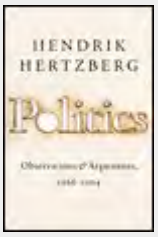
Politics: Observations and Arguments, 1966-2004
By Hendrik Hertzberg



The Penguin Press; 512 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

The younger Hertzberg does not always keep his Harvard cleverness in check. But the wetness is soon wrung out. After the 2000 election, a hardness and urgency enter Mr Hertzberg's prose. Angry but lucid, he adopts the tradition of patriotic dissent celebrated by Mr Schlesinger.

War and the American Presidency.
By Arthur M. Schlesinger.
Norton; 160 pages; $23.95

Politics: Observations and Arguments, 1966-2004.
By Hendrik Hertzberg.
The Penguin Press; 512 pages; $29.95

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About sponsorship

New fiction

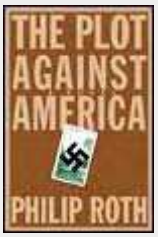
Welcome withdrawn

Oct 7th 2004
From The Economist print edition

WHEN, in the Jewish areas of Newark, New Jersey in the early 1930s, an old religious man went from door to door collecting money for a Jewish national homeland in British Palestine, young Philip Roth was perplexed. The collector "seemed unable to get it through his head that we'd already had a homeland for three generations. Our homeland was America." The sentiment was—and is—pretty universal among Jewish Americans: after centuries of pogroms and persecutions, they had finally found a home where they could practise their faith in peace.

"The Plot Against America" is a novel about what happens to one family—the Roths of Newark, indeed—when America's welcome is gradually rescinded. The book imagines a nasty turn in American politics: Charles Lindbergh, an aviator who admired Nazi Germany and shared its distaste for Jews, wins the Republican nomination for president on an isolationist ticket and defeats Franklin Roosevelt in the general election. It is not "about" a fascist America in the Robert Harris sense. Rather, it focuses on the tensions within a typical lower-middle-class Jewish family as a vice is tightened around them, and the world they thought they inhabited disappears bit by bit.

The Plot Against America
By Philip Roth



Houghton Mifflin; 400 pages; $26.
Jonathan Cape; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Thus, the eldest son, Sanford, spends a summer working on a farm in Kentucky as part of a programme devised by the "Office of American Absorption", an organisation designed to loosen Jewish cultural and political cohesiveness by moving families out of cities and dispersing them throughout rural America. Sanford returns from his summer of bacon-eating and cow-milking a strong proponent of the programme, criticising his worried parents for being scared "ghetto" Jews. Herman, the patriarch, leaves his job as an insurance salesman after being told to relocate to Kentucky, while his wife Bess takes a job in a department store, depositing her pay in a Canadian bank account should a flight north become necessary.

How closely the fictional family mirrors the real Roths is an interesting question, if only because it is quite unlike a typical family in Mr Roth's fiction. Herman and Bess (the names also of the novelist's parents) are quietly decent, and the family, for all the bickering and disagreements, is close. They have their faults—Herman's decency borders on naivety, and Bess is quick to fret—yet their faults ring true. They are two of the richest characters Mr Roth has created, heartbreaking and believable, and they make the novel one of his finest. Herman's incredulity at the nasty turn America is taking is an insight for those who wonder why German Jews, watching Hitler's rise, did not flee.

Admittedly, the book's historical aspects can seem thin and preposterous, especially the book's final twist, which allows Roosevelt back into office. Yet this matters much less than the description of how history can encroach upon an ordinary family, and how simple survival becomes an instance of heroism.

The Plot Against America.
By Philip Roth.
Houghton Mifflin; 400 pages; $26.
Jonathan Cape; £16.99

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About sponsorship

Obituary

Richard Avedon

Oct 7th 2004
From The Economist print edition

AP

Richard Avedon, portrait photographer, died on October 1st, aged 81

IN AMERICA'S bicentennial year, 1976, Richard Avedon was commissioned to photograph the great and good of the country for *Rolling Stone*. Among the meetings with edgy ex-presidents, leonine great writers and radicals with Afros out to their shoulders, one incident stuck in his mind. He went to photograph Henry Kissinger, the unsparing maker of war on Vietnam and Cambodia; and Mr Kissinger said, “Be kind to me.”

Unwittingly, he touched a nerve. Whatever else Mr Avedon thought about photography, an art about which he was unceasingly articulate and philosophical, he did not want it to be kind. His whole life was lived in opposition to the idea that photographic portraits should be posed, stiff and formal, and that photographers should revere or beautify their subjects. A studio portrait of his father used to sit on the piano when he was growing up; the family called it “Smilin' Jack Avedon”, and it seemed to be of a man he had never known. That was kindness, and it was not true. His parents, New York City retailers without much money, took their own family photos in front of other people's better houses, with borrowed dogs. That was self-enhancement, and the camera connived in the lie.

By contrast, Mr Avedon's work lived on the dangerous side. His first piece of fashion photography, a six-page spread for *Harper's Bazaar* in 1946, took models away from their studio poses—every hair in place, lipstick perfect, each fold of the skirt deliberate—and put them on the beach, running and jumping, with no gloves and no shoes. Such spontaneity was so shocking that fashion shoots of the old style never recovered from it. Mr Avedon was taken on not only by *Harper's*, but by *Vogue* and *Look* and, late in life, the previously photo-hating *New Yorker*, which let him do whatever he liked. He went on shocking. In 1955, he had photographed the model Dovima in a triumph of elephants. In 1995, for the *New Yorker*, he shot models canoodling with skeletons.

His first love, however, was taking portraits. There the trademark austerity of his pictures, in black and white against a white backdrop with straight, clinical lighting, suggested that no image could be closer to the reality. He photographed Eisenhower with the look of a surprised baby, Gerald Ford with a smile he was nervously adjusting, Marilyn Monroe in a sad dream, Judi Dench with her make-up half-smeared on her face. Yet, as he said again and again, this was not the truth. It was a surface, “and a surface is all you have to work with”. He could take off no more layers unless the subject allowed him to. What he was recording was a performance for the camera.

This was true even when his subjects were not famous. Mr Avedon had no interest merely in the high life. He also photographed patients in the East Louisiana State Hospital, napalm victims in Vietnam and, over two years, his own father as he died from cancer. In 1963 he wandered through the South, taking pictures of racists and civil-rights workers; in 1980 he went west, photographing miners, drifters, bar-girls and shipping clerks. His white sheet would be draped on a wall or the side of a van, his camera set up (he had switched in 1969 from a Rolleiflex to an 8 x 10 view camera, preferring the way he could stand beside it rather than behind it, encouraging the subject), and he would take strangers' pictures. Their eyes were wary. Again, the masks had come down.

The self through the lens

To his mind, Mr Avedon was born a portrait photographer. His sister was beautiful; as a child he took her picture again and again with a Brownie Box camera, and once developed a negative of her directly on to his skin. Fashion photographs from magazines decorated his bedroom walls. His war service, in the merchant marine, consisted of taking around 100,000 ID photographs of sailors: for the first time, that white background and that full-frontal stare. He once said that he could not spend a day without doing photography, and that it was only by taking pictures that he felt he was alive.

It was also, he admitted, a way of discovering who he was. Making a portrait was not a one-way street, with the photographer digging and intruding his lens into the mind of the sitter. Each new subject—a congressman standing by the flag, a dancer gesturing, a beekeeper with his charges crawling on his naked skin—also brought out in Mr Avedon facets of his own character. The portraits, once done, represented less the sitter than his own opinions; the “human predicament” he wished to show was, in fact, his own. His autobiography, published in 1993, was composed of 300 portraits of other people.

In 1976, he was not particularly kind to Mr Kissinger. Nor did he feel he was successful. He said later that he would have liked “anger, ineptitude, strength, vanity [and] isolation” to show through in the portrait. Instead, Mr Kissinger stands rather stiffly to attention, defensive and distrustful. “What, or who, is this photograph?” Mr Avedon asked. “Is it just a shadow representation of a man? Or is it closer to a *Doppelgänger*, a likeness with its own life, an inexact twin whose afterlife may overcome and replace the original?” He knew the answer.

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Overview

Oct 7th 2004
From The Economist print edition

American manufacturing activity slowed only slightly in September, according to the Institute for Supply Management's manufacturing index. Growth in **services**, however, which account for the bulk of American GDP, slowed more sharply: the institute's non-manufacturing index fell to its lowest level in 16 months. Consumer confidence, according to the University of Michigan's index, also edged lower in September.

Modest economic growth in the **euro area** is failing to reduce unemployment, which held steady at 9.0% in August. In **Germany**, the ranks of the unemployed grew in September by 27,000, nearly three times the number expected, and the unemployment rate rose to 10.7%. Some 4.4m German workers cannot find a job.

Consumer prices in the **euro area** rose by 2.2% in the year to September, down slightly from 2.3% in August. In **Spain**, industrial output rose by 5.5% in the year to August.

Industrial output in **Britain** slumped in August by 0.8%, the biggest monthly fall in nearly two years. However, the 12-month decline was a more modest 0.1%.

In **Australia**, by contrast, industrial production rose by 4.6% in the year to the second quarter.

Japanese consumer prices fell by 0.2% in the year to August, compared with a drop of 0.3% in the 12 months to August 2003.

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Output, demand and jobs

Oct 7th 2004
From The Economist print edition

% change on year ago

	GDP latest	GDP qtr*	The Economist poll GDP forecasts 2004	The Economist poll GDP forecasts 2005	Industrial production latest	Retail sales (volume) latest	Unemployment % rate latest	Unemployment % rate year ago
Australia	+ 4.1 Q2	+ 2.5	+ 3.7	+ 3.3	+ 4.6 Q2	+ 7.9 Q2	5.6 Sep	5.9
Austria	+ 1.9 Q2	+ 3.6	+ 1.6	+ 2.1	+ 6.1 Jul	+ 5.8 Jun	4.5 Sep	4.5
Belgium	+ 2.7 Q2	+ 3.0	+ 2.4	+ 2.1	+ 1.5 Jul	+ 4.4 Jun	13.2 Sep†	13.2
Britain	+ 3.6 Q2	+ 3.6	+ 3.4	+ 2.7	– 0.1 Aug	+ 6.5 Aug	4.7 Jul††	5.1
Canada	+ 3.0 Q2	+ 4.3	+ 3.0	+ 3.4	+ 4.1 Jul	+ 3.1 Jun	7.2 Aug	8.0
Denmark	+ 2.6 Q2	+ 0.9	+ 2.2	+ 2.3	+ 0.7 Jul	+ 4.5 Aug	6.3 Aug	6.1
France	+ 2.8 Q2	+ 2.8	+ 2.5	+ 2.3	+ 2.5 Jul	+ 1.0 Aug	9.9 Aug	9.8
Germany	+ 2.0 Q2	+ 1.9	+ 1.5	+ 1.7	+ 2.2 Jul	– 1.4 Aug	10.7 Sep§	10.5
Italy	+ 1.2 Q2	+ 1.1	+ 1.2	+ 1.6	– 1.2 Jul	– 2.3 Jul	8.5 Apr	8.7
Japan	+ 4.2 Q2	+ 1.3	+ 4.3	+ 2.2	+ 9.9 Aug	+ 0.8 Jul	4.8 Aug	5.1
Netherlands	+ 1.3 Q2	– 0.4	+ 1.2	+ 1.6	– 0.1 Aug	– 0.7 Jun‡	6.2 Aug**	5.3
Spain	+ 2.6 Q2	+ 2.0	+ 2.6	+ 2.6	+ 5.5 Aug	+ 3.0 Jul	11.0 Aug	11.2
Sweden	+ 3.6 Q2	+ 4.0	+ 3.3	+ 2.8	– 0.1 Jul	+ 6.4 Aug	5.5 Aug†	5.4
Switzerland	+ 2.0 Q2	+ 1.6	+ 1.9	+ 2.0	+ 4.3 Q2	– 0.8 Jul	3.7 Aug†	3.6
United States	+ 4.8 Q2	+ 3.3	+ 4.3	+ 3.4	+ 5.2 Aug	+ 4.1 Aug	5.4 Aug	6.1
Euro area	+ 2.0 Q2	+ 2.1	+ 1.9	+ 1.9	+ 2.4 Jul	– 0.4 Aug	9.0 Aug	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 2.7 Q2	+ 2.9	na	na	+ 7.2 Aug	+ 5.1 Jul	8.0 Aug†	7.7
Greece	+ 3.9 Q2	– 0.6	na	na	– 0.6 Jul	+ 6.6 Jul	na	na
Iceland	+ 6.2 Q2	na	na	na	na	na	3.0 Jul†	3.0
Ireland	+ 4.1 Q2	na	na	na	+ 6.4 Jul	+ 1.2 Jul	4.5 Sep	4.6
Luxembourg	+ 2.12003	na	na	na	– 1.2 Dec	– 1.1 May	4.1 Aug	3.6
New Zealand	+ 6.0 Q2	+ 4.6	na	na	+ 5.5 Q1	+ 6.8 Q2	4.0 Q2	4.7
Norway	+ 4.1 Q2	+ 5.0	na	na	+ 3.5 Jul	+ 3.6 Aug	4.6 Q2	4.7
Portugal	+ 1.5 Q2	+ 4.7	na	na	– 3.9 Aug	+ 5.4 Aug	6.3 Q2†	6.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††May-Jul; claimant count rate 2.7% in Aug. §EU harmonised rate 9.9% in Aug. **Jun-Aug.

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Prices and wages

Oct 7th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.5	Q2	+ 2.7	+ 2.4	+ 2.7	+ 2.8	Q2	+ 0.2	+ 2.9	Q2	+ 5.5
Austria	+ 2.4	Aug	+ 1.2	+ 1.7	+ 1.6	+ 6.0	Sep	+ 1.3	+ 1.9	Aug	+ 2.3
Belgium	+ 2.0	Sep	+ 1.8	+ 1.9	+ 1.7	+ 5.8	Aug	– 1.4	+ 2.2	Jul	+ 1.9
Britain	+ 1.3	Aug*	+ 1.4	+ 1.4	+ 1.8	+ 2.6	Aug	+ 1.5	+ 3.8	Jul†	+ 3.3
Canada	+ 1.9	Aug	+ 2.0	+ 2.0	+ 2.2	+ 4.9	Aug	– 1.9	+ 1.5	Jul	+ 5.1
Denmark	+ 1.2	Aug	+ 1.7	+ 1.2	+ 1.8	+ 3.1	Aug	– 0.3	+ 3.1	Q2	+ 3.8
France	+ 2.4	Aug	+ 1.9	+ 2.2	+ 1.6	+ 2.8	Aug	+ 0.5	+ 2.8	Q2	+ 2.7
Germany	+ 1.8	Sep	+ 1.1	+ 1.7	+ 1.3	+ 4.2	Aug	+ 0.5	+ 0.5	Jul	+ 1.4
Italy	+ 2.1	Sep	+ 2.8	+ 2.3	+ 2.1	+ 3.5	Aug	+ 1.4	+ 2.6	Aug	+ 2.6
Japan	– 0.2	Aug	– 0.3	– 0.1	+ 0.1	+ 1.7	Aug	– 0.7	+ 1.9	Jul	+ 3.6
Netherlands	+ 1.0	Sep	+ 2.0	+ 1.4	+ 1.2	+ 5.3	Aug	+ 0.6	+ 1.2	Aug	+ 2.5
Spain	+ 3.3	Aug	+ 3.0	+ 2.9	+ 2.7	+ 4.4	Aug	+ 1.1	+ 3.1	Q2	+ 4.2
Sweden	+ 0.6	Aug	+ 1.7	+ 0.8	+ 1.5	+ 2.0	Aug	– 1.7	+ 2.4	Jul	+ 3.6
Switzerland	+ 0.9	Sep	+ 0.5	+ 0.8	+ 1.1	+ 1.5	Aug	– 0.3	+ 1.4	2003	+ 1.8
United States	+ 2.7	Aug	+ 2.2	+ 2.6	+ 2.2	+ 3.4	Aug	+ 3.5	+ 2.3	Aug	+ 2.6
Euro area	+ 2.2	Sep	+ 2.2	+ 2.1	+ 1.7	+ 3.1	Aug	+ 1.4	+ 2.2	Q2	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.4	Aug	+ 0.6	na	na	+ 1.8	Aug	+ 0.3	+ 3.5	Q2	+ 4.4
Greece	+ 2.7	Aug	+ 3.3	na	na	+ 2.1	Aug	+ 2.2	na		na
Iceland	+ 3.4	Sep	+ 2.2	na	na	+ 7.2	Sep	+ 3.6	+ 5.2	Aug	+ 5.7
Ireland	+ 2.6	Aug	+ 3.2	na	na	– 0.4	Aug	– 7.8	+ 3.8	Q2	+ 8.0
Luxembourg	+ 2.3	Aug	+ 2.0	na	na	+ 9.6	Jul	+ 0.7	– 0.4	Dec	+ 0.7
New Zealand	+ 2.4	Q2	+ 1.5	na	na	+ 1.5	Q2	– 1.9	+ 2.3	Q2	+ 2.3
Norway	+ 1.0	Aug	+ 2.1	na	na	+16.4	Aug	+ 6.1	+ 4.5	Q2	+ 5.4
Portugal	+ 2.3	Aug	+ 2.8	na	na	+ 4.1	Aug	+ 0.1	+ 1.4	Jul	– 2.5

*New series. RPI inflation rate 3.2% in Aug. †May-Jul.

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Economic forecasts

Oct 7th 2004
From The Economist print edition

The Economist poll of forecasters, October averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2004	2005	2004	2005	2004	2005	2004	2005
Australia	3.2/4.5	2.8/3.8	3.7 (3.6)	3.3	2.4	2.7 (2.6)	–5.8(–5.6)	–5.0 (–4.9)
Austria	1.0/2.0	1.5/2.5	1.6	2.1	1.7 (1.6)	1.6 (1.5)	–0.3(–0.4)	–0.4 (–0.5)
Belgium	1.7/2.7	1.3/2.5	2.4	2.1	1.9	1.7 (1.6)	3.2	3.2 (3.5)
Britain	3.2/3.6	2.0/3.5	3.4	2.7	1.4 (1.5)	1.8	–2.4(–2.3)	–2.6 (–2.3)
Canada	2.9/3.2	2.9/4.1	3.0	3.4	2.0	2.2	2.8 (2.4)	2.4 (2.1)
Denmark	2.0/2.4	1.6/2.5	2.2 (2.1)	2.3	1.2	1.8	2.9 (2.7)	2.6
France	2.1/2.7	2.0/2.6	2.5 (2.4)	2.3 (2.2)	2.2	1.6	0.3 (0.5)	0.3 (0.6)
Germany	1.3/1.9	1.2/2.2	1.5	1.7	1.7	1.3	3.1 (2.8)	2.9 (2.8)
Italy	1.0/1.3	0.9/2.0	1.2	1.6 (1.7)	2.3	2.1	–0.9(–1.0)	–1.1 (–1.0)
Japan	4.0/4.6	1.3/3.3	4.3 (4.5)	2.2 (2.3)	–0.1	0.1 (0.2)	3.5	3.5 (3.6)
Netherlands	1.0/1.4	1.1/2.0	1.2 (1.3)	1.6 (1.7)	1.4	1.2 (1.4)	2.9 (2.7)	3.0 (2.9)
Spain	2.5/2.8	2.0/3.0	2.6 (2.8)	2.6 (2.8)	2.9	2.7	–3.1(–2.8)	–3.1 (–2.9)
Sweden	2.4/3.8	2.5/3.6	3.3 (3.0)	2.8 (2.7)	0.8	1.5	6.6 (6.3)	6.1
Switzerland	1.6/2.1	1.3/2.3	1.9	2.0	0.8 (0.7)	1.1	11.3(10.9)	10.8 (10.6)
United States	4.2/4.5	3.0/4.0	4.3	3.4	2.6 (2.7)	2.2 (2.4)	–5.5(–5.1)	–5.3 (–5.0)
Euro area	1.6/2.0	1.5/2.3	1.9 (1.8)	1.9 (2.0)	2.1	1.7	0.6 (0.5)	0.6 (0.5)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. Our panel has reduced its growth forecasts for Japan to 4.3% in 2004 and 2.2% in 2005, down from 4.5% and 2.3% last month. It expects the euro area to grow by 1.9% a year in both 2004 and 2005. The prospects for American inflation have improved, with consumer prices forecast to rise by 2.6% this year and by 2.2% next year. But the panel has become gloomier about America's current-account deficit, which it predicts will reach 5.5% of GDP in 2004 and 5.3% of GDP in 2005, both higher than last month.

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Money and interest rates

Oct 7th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Oct 6th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 5.6	+10.2	Aug	5.42	4.95	5.11	5.48	5.58	6.25
Britain	+ 5.1	+ 9.7	Aug	4.88	3.84	4.65	4.83	4.74	5.46
Canada	+10.5	+ 9.1	Aug	2.50	2.61	3.34	4.67	4.75	5.42
Denmark	+ 9.5	+11.1	Aug	2.21	2.13	2.74	4.04	4.34	5.23
Japan	+ 3.8	+ 1.9	Aug	0.03	0.02	0.14	1.58	1.33	1.65
Sweden	+ 1.1	+ 1.5	Aug	2.05	2.70	2.76	4.24	4.70	2.82
Switzerland	+ 0.6	+ 2.0	Aug	0.71	0.24	1.03	2.57	2.62	2.39
United States	+ 4.7	+ 4.4	Aug	2.00	1.06	2.69	4.22	4.24	5.71
Euro area†	+ 9.3	+ 5.5	Aug	2.15	2.13	2.57	3.95	4.16	3.79

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.97%, Japan No. 263 1.59%. Central bank rates: US fed funds 1.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Oct 7th 2004
From The Economist print edition

1995=100

	Sep 28th	Oct 5th*	% change on one month	% change on one year
Dollar index				
All items	88.3	87.6	– 0.6	+ 7.6
Food	80.6	78.9	– 3.5	– 2.6
Industrials				
All	98.9	99.5	+ 2.7	+21.1
Nfa†	85.1	82.6	–11.2	– 4.1
Metals	110.5	113.8	+13.6	+44.4
Sterling index				
All items	76.9	77.6	– 1.1	+ 0.7
Euro index				
All items	94.4	93.7	– 2.4	+ 2.9
Yen index				
All items	104.8	103.6	+ 1.0	+ 9.1
Gold				
$ per oz	411.13	415.98	+ 4.3	+10.5
West Texas Intermediate				
$ per barrel	49.90	51.06	+18.1	+68.0

* Provisional. † Non-food agriculturals.

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Stockmarkets

Oct 7th 2004
From The Economist print edition

Market indices

	Oct 6th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,709.0	3,709.0	3,274.9	+ 1.1	nil	+12.2	+ 7.9
Austria (ATX)	2,119.0	2,119.0	1,568.9	+ 3.3	nil	+37.1	+33.8
Belgium (Bel 20)	2,775.2	2,775.2	2,244.2	+ 3.1	-24.6	+23.7	+20.6
Britain (FTSE 100)	4,706.3	4,707.1	4,287.0	+ 2.6	-32.1	+ 5.1	+ 4.5
Canada (Toronto Composite)	8,871.9	8,898.8	8,123.5	+ 2.8	-22.1	+ 7.9	+10.8
Denmark (KBX)	252.1	253.0	219.0	+ 0.9	-16.5	+18.0	+15.2
France (SBF 250)	2,569.9	2,594.4	2,386.1	+ 2.0	-41.5	+ 6.6	+ 3.9
(CAC 40)	3,764.6	3,811.4	3,465.3	+ 2.2	-45.6	+ 5.8	+ 3.2
Germany (DAX)	4,049.7	4,151.8	3,647.0	+ 3.3	-49.8	+ 2.1	- 0.4
Italy (BCI)	1,349.7	1,349.7	1,239.5	+ 1.8	-38.1	+ 7.5	+ 4.8
Japan (Nikkei 225)	11,385.4	12,163.9	10,365.4	+ 5.6	-70.7	+ 6.6	+ 2.7
(Topix)	1,147.7	1,217.9	1,022.6	+ 5.4	-60.2	+10.0	+ 5.9
Netherlands (AEX)	337.0	364.8	310.7	+ 3.6	-52.0	- 0.2	- 2.7
Spain (Madrid SE)	878.7	881.7	804.4	+ 3.1	-23.3	+ 8.8	+ 6.1
Sweden (Affarsvarlden Gen)	212.4	218.1	188.5	+ 1.9	-46.9	+12.7	+10.4
Switzerland (Swiss Market)	5,593.9	5,934.4	5,309.8	+ 1.1	-33.5	+ 1.9	- 0.2
United States (DJIA)	10,239.9	10,737.7	9,814.6	+ 1.0	-12.7	- 2.0	- 2.0
(S&P 500)	1,142.1	1,157.8	1,063.2	+ 2.4	-25.2	+ 2.7	+ 2.7
(NASDAQ Comp)	1,971.0	2,153.8	1,752.5	+ 4.1	-61.0	- 1.6	- 1.6
Europe (FTSE Eurotop 300)*	1,015.3	1,026.2	940.9	+ 2.2	-40.5	+ 6.0	+ 3.4
Euro area (FTSE Ebloc 100)*	862.7	888.3	787.2	+ 2.9	-44.4	+ 3.7	+ 1.2
World (MSCI)†	1,071.9	1,085.8	997.0	+ 2.2	-26.3	+ 3.1	+ 3.1
World bond market (Citigroup)‡	608.1	619.5	575.1	nil	- 1.4	+ 1.2	+ 1.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Oct 7th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2004	Current-account balance The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Oct 6th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Oct 6th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 17.0 Aug	− 34.2 Q2	− 5.8	− 5.0	85.7	83.6	1.38	1.47	2.46	1.70	1.24	+ 0.5
Austria	− 1.5 Jul	− 2.0 Jul	− 0.3	− 0.4	103.0§	103.0	0.81	0.85	1.45	–	0.73	− 1.3
Belgium	+ 20.3 Jul	+ 13.0 Jun	+ 3.2	+ 3.2	103.1§	103.0	0.81	0.85	1.45	–	0.73	− 0.2
Britain	− 97.5 Jul	− 41.7 Q2	− 2.4	− 2.6	102.0	98.1	0.56	0.60	–	0.69	0.50	− 2.9
Canada	+ 49.3 Jul	+ 23.8 Q2	+ 2.8	+ 2.4	91.8	87.2	1.26	1.35	2.24	1.55	1.13	+ 1.2
Denmark	+ 10.4 Jul	+ 7.0 Jul	+ 2.9	+ 2.6	106.6	106.4	6.05	6.34	10.8	7.44	5.44	+ 0.9
France	+ 1.9 Jul††	− 0.7 Jul	+ 0.3	+ 0.3	106.5§	106.4	0.81	0.85	1.45	–	0.73	− 3.8
Germany	+186.4 Jul	+ 95.1 Jul	+ 3.1	+ 2.9	104.3§	104.1	0.81	0.85	1.45	–	0.73	− 3.7
Italy	+ 3.3 Jul	− 14.0 Jul	− 0.9	− 1.1	76.0§	75.9	0.81	0.85	1.45	–	0.73	− 3.1
Japan	+133.4 Jul	+165.8 Jul	+ 3.5	+ 3.5	131.9	136.9	111	111	198	137	–	− 7.1
Netherlands	+ 33.7 Jul	+ 20.7 Q2	+ 2.9	+ 3.0	102.6§	102.5	0.81	0.85	1.45	–	0.73	− 3.1
Spain	− 64.0 Jul	− 33.4 Jun	− 3.1	− 3.1	77.1§	77.1	0.81	0.85	1.45	–	0.73	+ 0.3
Sweden	+ 22.9 Aug	+ 23.4 Q2	+ 6.6	+ 6.1	82.5	82.7	7.35	7.72	13.1	9.04	6.60	+ 0.2
Switzerland	+ 8.2 Aug	+ 45.0 Q2	+11.3	+10.8	112.0	111.8	1.26	1.31	2.25	1.55	1.14	− 1.6
United States	−598.3 Jul	−571.9 Q2	− 5.5	− 5.3	95.9	98.8	–	–	1.78	1.23	0.90	− 4.7
Euro area	+111.8 Jul	+ 61.5 Jul	+ 0.6	+ 0.6	91.7	90.7	0.81	0.85	1.45	–	0.73	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 14.8 Jul	+ 11.2 Jul	na	na	82.2§	82.0	0.81	0.85	1.44	–	0.73	+ 1.6
Greece	− 28.6 Jul	− 11.1 Jul	na	na	59.6§	59.6	0.81	0.85	1.44	–	0.73	− 3.2
Iceland	− 0.5 Aug	− 0.6 Q2	na	na	95.2**	99.1	71.1	76.0	127	87.5	63.9	+ 0.2
Ireland	+ 42.4 Jul	− 1.7 Q2	na	na	94.2§	94.7	0.81	0.85	1.44	–	0.73	− 0.5
Luxembourg	− 4.3 Jul	+ 2.1 Q2	na	na	103.1§	103.0	0.81	0.85	1.44	–	0.73	− 1.8
New Zealand	− 2.4 Aug	− 3.9 Q2	na	na	107.9	97.3	1.48	1.67	2.63	1.82	1.33	+ 2.9
Norway	+ 30.2 Aug	+ 31.2 Jul	na	na	97.3	97.5	6.73	6.97	12.0	8.28	6.05	+ 10.4
Portugal	− 16.9 Jun	− 10.0 Jul	na	na	93.6**	93.8	0.81	0.85	1.44	–	0.73	− 3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, July average. ‡OECD forecast. ††New series. **IMF, May average.

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About sponsorship

The Economist metals index

Oct 7th 2004
From The Economist print edition

Metals prices have risen to their highest levels in nearly ten years, thanks to demand from China and speculation by investment funds. Since 2001, nickel prices have nearly quadrupled.

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Overview

Oct 7th 2004
From The Economist print edition

In an effort to curb inflation, **Taiwan's** central bank raised interest rates for the first time in four years. Consumer prices rose by 2.8% in the year to September, up from 2.5% in the year to August.

Consumer prices in **Argentina** rose by 5.8% in the year to September, up slightly from 5.2% in the year to August, but still on course for meeting the central bank's 2004 inflation target of 7.0%.

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Child mortality

Oct 7th 2004
From The Economist print edition

Progress is too slow in reducing child deaths, according to a new report from Unicef. The United Nations Millennium Development Goals, established in 2000, set countries a target of cutting under-five mortality rates by two-thirds, comparing 2015 with 1990. While 90 countries, among them Egypt, Indonesia and Brazil, are on track to meet this goal, Cambodia, Botswana and Afghanistan are among 98 countries far off target. War, malnutrition, AIDS and other diseases cause 11m child deaths a year, most of which could be prevented by basic health measures.

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Economy

Oct 7th 2004
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.6	Q2	+15.9	Aug	+ 5.3	Aug	+16.2	Aug	+45.9	2003	483.0	Jul
Hong Kong	+12.1	Q2	+ 1.1	Q2	+ 0.8	Aug	−13.6	Aug	+13.6	Q2	118.5	Aug
India	+ 7.4	Q2	+ 7.9	Jul	+ 4.6	Aug	−18.5	Aug	+ 8.7	Q1	112.1	Aug
Indonesia	+ 4.3	Q2	+15.0	Jun	+ 6.3	Sep	+24.3	Aug	+ 3.9	Q2	33.6	Jul
Malaysia	+ 8.0	Q2	+10.6	Aug	+ 1.4	Aug	+20.2	Aug	+13.6	Q2	54.2	Aug
Philippines	+ 6.2	Q2	− 0.4	Jul	+ 6.9	Sep	− 1.6	Jul	+ 3.9	Mar	12.7	Aug
Singapore	+12.5	Q2	+ 5.3	Aug	+ 1.6	Aug	+16.0	Aug	+28.4	Q2	101.3	Aug
South Korea	+ 5.5	Q2	+12.8	Jul	+ 3.9	Sep	+29.4	Sep	+27.3	Aug	170.4	Aug
Taiwan	+ 7.7	Q2	+ 8.8	Aug	+ 2.8	Sep	+10.8	Sep	+25.8	Q2	233.0	Sep
Thailand	+ 6.3	Q2	+ 6.1	Aug	+ 3.6	Sep	+ 1.3	Aug	+ 6.7	Aug	42.8	Aug
Argentina	+ 7.0	Q2	+ 8.4	Aug	+ 5.8	Sep	+12.6	Aug	+ 6.1	Q1	18.1	Aug
Brazil	+ 5.7	Q2	+ 9.6	Jul	+ 7.2	Aug	+32.2	Sep	+ 9.7	Aug	49.6	Aug
Chile	+ 5.1	Q2	+ 9.0	Aug	+ 2.2	Sep	+ 7.4	Aug	+ 1.2	Q2	15.8	Aug
Colombia	+ 4.3	Q2	+ 4.9	Jul	+ 5.9	Aug	+ 0.2	Jul	− 1.6	Q2	12.0	Aug
Mexico	+ 3.9	Q2	+ 3.8	Jul	+ 4.8	Aug	− 5.8	Aug	− 6.7	Q2	60.3	Jul
Peru	+ 3.8	Jul	+ 8.4	Jul	+ 4.0	Sep	+ 1.8	Jul	− 0.7	Q2	10.2	Aug
Venezuela	+13.6	Q2	+32.2	Jun	+20.8	Sep	+20.3	Q2	+14.0	Q2	18.0	Jun
Egypt	+ 4.3	2004†	+ 2.6	2003†	+16.5	May‡	− 7.5	Q2	+ 3.7	Q2	13.3	May
Israel	+ 3.0	Q2	+ 1.9	Jul	+ 0.5	Aug	− 6.2	Aug	+ 0.1	Q2	26.1	Aug
South Africa	+ 2.5	Q2	+ 5.5	Jul	+ 1.0	Aug	− 0.9	Aug	− 3.5	Q2	10.4	Aug
Turkey	+13.4	Q2	+12.8	Jul	+ 9.0	Sep	−31.2	Aug	−12.4	Aug	32.4	Jul
Czech Republic	+ 4.1	Q2	+11.0	Jul	+ 3.4	Aug	− 1.9	Aug	− 6.2	Q2	26.3	Aug
Hungary	+ 4.0	Q2	+ 3.6	Aug	+ 7.2	Aug	− 3.0	Q2	− 8.4	Q2	12.8	Aug
Poland	+ 6.1	Q2	+13.5	Aug	+ 4.6	Aug	− 5.3	Jul	− 4.0	Jul	34.6	Jul
Russia	+ 7.4	Q2	+ 6.8	Aug	+11.5	Sep	+69.5	Jul	+38.4	Q2	84.9	Aug
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.9	Q2	+ 6.0	Aug	+ 3.9	Sep	− 2.4	Jul	− 1.5	Q2	1.4	Jul
Latvia	+ 7.7	Q2	+ 7.8	Jul	+ 7.8	Aug	− 2.5	Jul	− 1.4	Jul	1.6	Jul
Lithuania	+ 6.9	Q2	na		+ 2.2	Aug	− 3.1	Jul	− 1.8	Q2	3.3	Jul
Slovakia	+ 5.4	Q2	+ 0.7	Jul	+ 7.2	Aug	− 0.7	Jul	− 0.7	Jul	12.8	Jul
Slovenia	+ 4.6	Q2	+ 3.0	Jul	+ 3.3	Sep	− 0.9	Jul	− 0.1	Jul	7.9	Jun
Pakistan	+ 6.4	2004†	+24.8	May	+ 9.2	Aug	− 3.7	Aug	+ 1.8	Q2	11.2	Jun
Saudi Arabia	+ 7.2	2003	na		+ 0.2	Jun	+61.2	2003	+29.7	2003	22.2	0

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series, % change Jan-May annualised.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Oct 7th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 6th		Dec 31st 2003	
	Oct 6th	year ago	Oct 6th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	14.7	3.15	1,465.2**	– 1.6	– 6.6	– 6.6
Hong Kong	7.80	7.73	13.9	1.18	13,271.6	+ 2.5	+ 5.5	+ 5.1
India	45.8	45.3	81.6	5.02	5,713.8	+ 3.4	– 2.1	– 2.6
Indonesia	9,105	8,362	16,204	7.50	856.1	+ 5.3	+ 23.7	+ 14.5
Malaysia	3.80	3.80	6.76	2.87	861.5	+ 1.7	+ 8.5	+ 8.5
Philippines	56.3	55.0	100.2	7.69	1,841.7	+ 5.7	+ 27.7	+ 26.0
Singapore	1.69	1.72	3.01	1.38	2,016.0	+ 2.1	+ 14.3	+ 14.7
South Korea	1,153	1,150	2,051	3.43	887.5	+ 6.7	+ 9.5	+ 13.2
Taiwan	33.9	33.7	60.4	1.25	6,060.6	+ 4.3	+ 2.9	+ 3.0
Thailand	41.4	39.3	73.7	1.82	668.5	+ 5.0	– 13.4	– 17.2
Argentina	2.97	2.86	5.29	5.69	1,128.0	– 1.7	+ 5.2	+ 3.8
Brazil	2.83	2.84	5.04	16.20	24,027.0	+ 3.6	+ 8.1	+ 10.1
Chile	601	644	1,069	2.04	8,698.1	+ 1.5	+ 18.3	+ 16.7
Colombia	2,603	2,885	4,632	7.66	3,606.2	+ 1.3	+ 54.5	+ 65.0
Mexico	11.3	11.2	20.1	7.65	11,090.9	+ 1.0	+ 26.1	+ 25.7
Peru	3.33	3.48	5.93	2.79	3,356.8	+ 4.1	+ 37.9	+ 43.3
Venezuela	2,480§	1,598	4,411	13.87	30,599.2	+ 1.8	+ 37.8	+ 58.6
Egypt	6.24	6.16	11.11	10.73	20,210.9	+ 1.9	+ 73.7	+ 71.5
Israel	4.47	4.43	7.95	1.00	569.8††	+ 1.9	+ 6.6	+ 5.0
South Africa	6.51	6.90	11.6	7.50	11,925.0	+ 1.8	+ 14.8	+ 17.6
Turkey	1,505,500	1,381,500	2,679,338	24.01	22,287.1	+ 0.3	+ 19.7	+ 11.7
Czech Republic	25.6	27.1	45.5	2.78	878.5	+ 0.4	+ 33.3	+ 33.8
Hungary	200	215	356	10.78	12,799.0	+ 1.9	+ 36.5	+ 41.7
Poland	3.52	3.83	6.26	6.90	25,763.5	+ 2.3	+ 23.7	+ 31.7
Russia	29.2	30.3	52.0	13.00	679.0‡	+ 7.5	+ 19.6	+ 19.7
EMF (MSCI)*	1.00	1.00	1.78	na	480.4	nil	+ 4.3	+ 4.3
EMBI+†	1.00	1.00	1.78	na	313.5	nil	+ 6.3	+ 6.3

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **Sep30th. ††Oct5th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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